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Who Creates Jobs?

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FALL BOOKS: A SPECIAL SUPPLEMENT

Reviews by Robert M. Solow, Nathan Glazer, Robert H. Bork, Brigitte Berger, Laurence E. Lynn, Jr., Michael A. Scully, Andy Stark, Paul Seabury, Walter Berns, Peter L. Berger, and David F. Epstein.

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Who creates jobs?

DAVID L. BIRCH

As a nation, we must create about 15 million new jobs in the 1980's to employ all of our expanding adult population. This is less than the 19 million we created in the 1970's to absorb "war babies" into the labor force, but it is still quite a large number. Assuming that present attitudes toward government extend at least a few years into the decade, the government sector as a whole will produce no more than one-quarter of the needed 15 million. The private sector will have to produce the rest. All of this will have to take place during a period in which the structure of the U.S. economy is undergoing very basic changes.

As a group of us at the M.I.T. Program on Neighborhood and Regional Change began to think about how the nation will meet this challenge, we came to appreciate how little we knew about the processes by which job creation takes place. Most students of the economy have tended to focus on the aggregate measures of economic change flowing out of the GNP accounts, and have not probed the activities of the individual companies that make it all happen. These analysts may guess about what kinds of corporate behavior are causing shifts, but they never really know for sure.

On the other end of the spectrum, those who have studied the behavior of individual corporations rarely have added up the firms

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to see how they come together to create the whole. "Input-output analysis" is one of the major exceptions to this, focusing as it does on transactions between businesses in the economy. Welcome as this innovation has been, it has suffered (as have other attempts to aggregate parts to form economic wholes) from the enormous cost of collecting the necessary data. As a result, it tends to be out of date, and its results are expressed in terms of transactions between whole industries, not between firms.

Our inability to understand the gap between the "micro" economy and "macro" economy is now seriously hampering efforts to develop policies that will generate jobs for the people and the places that need them, without causing inflation at the same time. We know very little about who the major job creators are, where they are active, who controls those jobs, and who is most likely to respond to changes in economic policy. In the absence of such knowledge, national policy has been to stimulate the entire economy as though it acted as a single unit, using instruments like broad tax incentives, easier access to money, and public works programs of various sorts. This can be a very expensive and inflationary approach if, in fact, most of the recipients do not use the incentives to increase employment and productivity. What we need, and have lacked, is the ability to focus our incentives on those who will make good use of them without wasting taxpayers' monies on those who will not.

Frustrated by the inability to relate micro to macro, and thereby to discover how change takes place, our group at M.I.T. began casting about for a new data source that would permit us to analyze inexpensively a large sample of the entire corporate population, one establishment at a time. Our search uncovered the so-called DMI file created by the Dun and Bradstreet corporation. The file contains records for about four million establishments, about 80 percent of the total recognized establishments in the country. We devised a way to combine the data for each establishment for four different years (1969, 1972, 1974, 1976) to obtain a history of the development of each establishment during this period. In the process we added in new firms that were formed along the way, yielding a total of about 5.6 million establishments over the seven-year period. We also edited the records extensively to eliminate establishments for which the data seemed at all questionable. When we were done, we were able to trace what happened to the employment, sales industry, corporate affiliation, age, and location of each establishment over this time. By aggregating establishments, we could see who was contributing to job growth in different periods and places.

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TABLE I. *Percentage of Job Losses and Gains by Growth Rate for States*[1]

STATE GROWTH RATE[2]	FAST	MODERATE	SLOW	DECLINE	U.S. AVERAGE
1969–72:					
Gains	13.8%	10.9%	8.5%	7.5%	10.4%
Losses	8.3	8.0	7.7	8.4	8.1
Net	5.5	2.9	.8	−.9	2.3
1972–74:					
Gains	12.4%	10.1%	9.0%	—	10.9%
Losses	7.2	7.2	7.6	—	7.2
Net	5.2	2.9	1.4	—	3.7
1974–76:					
Gains	15.1%	11.4%	10.7%	8.3%	11.2%
Losses	8.9	8.7	9.7	9.3	9.2
Net	6.2	2.7	1.0	−1.0	2.0

[1] Source: M.I.T. Program on Neighborhood and Regional Change.
[2] The four classes of employment change are: Fast (over 4 percent per year), Moderate (2 to 4 percent per year), Slow (0 to 2 percent per year), and Decline (less than 0 percent per year). On the average, this breakdown divides states into four roughly equal groups, although the size of the groups in any particular year is sensitive to the business cycle.

Job creation is what really matters

For any particular place, it turns out that there are six quite different ways that an establishment can affect an area's job base. On the plus side, jobs are added to the pool each year whenever a new firm starts up, an existing firm expands, or a firm located elsewhere moves in. Jobs are lost whenever an establishment closes its doors, lays off people, or moves out. We have come to call these six "job flows": *births* (a new firm starting), *expansions, in-migrants, deaths* (an existing firm closing its doors), *contractions,* and *out-migrants.* The extent to which an area's job pool expands or contracts in total over the year depends on the relative balance between these flows during the year.

We discovered a number of interesting things about the job flows. First, *virtually none of the employment change in an area is due to firms moving,* in the sense of hiring a moving van and relocating. Many firms move short distances each year, but virtually none move from one metropolitan or rural area to another. When a move does occur, it is widely publicized in the press, and it is easy (without evidence to the contrary) to begin to pin all of an area's economic woes on the fleeing firm. Any hard look at the numbers, however, will show that fleeing firms take only a small number of jobs with

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them, and that for every firm that flees there tends to be another firm with a similar number of jobs moving in. The net effect of firm "migration" is thus negligible relative to the job base (and the other job flows) for most places.

The second striking phenomenon observed in the analysis of employment change is the constancy of job losses. Every area in the United States seems to lose jobs at about the same rate, regardless of how rapidly the net job pool is expanding or contracting. Table I sorts states into different groups by growth-rate and displays the gains and the losses for each group in each of the three periods studied. As can be seen, virtually all the differences in the net change are due to differences in the gain rates, the sum of the loss rates being remarkably similar across states. There is a variation in average loss rates over time with the business cycle in the expected directions, but all states seem to float up and down together on the loss side, varying between seven and nine percent.

The same phenomenon appears to hold across cities, and even within them. Table II summarizes the loss and gain rates for ten metropolitan areas for which the neighborhood location of each business has been located. The differences in loss rates are relatively small, and if anything the more rapidly growing areas also experience the highest losses. Houston and Charlotte show somewhat higher loss rates than Worcester and New Haven, for example. Again, it is the variation in the gain rates that is so large, the rapidly growing areas replacing lost jobs at two or three times the rate of the declining ones. The same general phenomenon is ob-

TABLE II. *Percentage of Firms Gained and Lost in Ten Metropolitan Areas, 1972-76*[1]

AREA[2]	PERCENT GAIN	PERCENT LOSS	PERCENT NET
Houston	62.7%	35.7%	27.0%
Charlotte	48.0	40.4	7.5
Dayton	36.4	31.4	5.1
Rochester	33.7	29.3	4.5
Boston	37.4	33.7	3.8
Baltimore	36.5	32.9	3.5
Hartford	36.6	35.5	1.1
Worcester	24.6	25.1	– .5
New Haven	27.0	29.5	–2.6
Greenville	26.9	35.1	–8.4
U.S. Average	37.0%	33.7%	4.1%

[1] Source: M.I.T. Program on Neighborhood and Regional Change.
[2] Standard Metropolitan Statistical Areas.

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served for the central cities and suburbs within these metropolitan areas.

The average loss rate is also quite high. An eight percent loss every year means that half of an area's jobs and establishments must be replaced every five years for the area simply to break even. We seem to have developed an economic system in which experimentation and risk-taking are very common. As a consequence, we experience and tolerate very high failure rates. The more dynamic the local economy (e.g., Houston) the greater the risk-taking and the greater the proportion of firms that fail. It could easily be argued (without being facetious) that one of our greatest strengths as a nation is our capacity for failure—the grace and even enthusiasm with which we accept those who try and fail and come back to try again. To our counterparts in the industrial world, this churning in our system seems extraordinary. We take it for granted, and at times even try to stifle it under the misguided banner labeled "job retention." *The reality is that our most successful areas are those with the highest rates of innovation and failure, not the lowest.* Areas that are declining are not declining because their rates of loss are higher. They are declining because they are not competing effectively for new jobs.

Those small, volatile job replacers

Since we turn over such a large proportion of our job base every year—in all industries and all areas—the overall character of our economy is affected quite quickly by the nature of the job replacers. It no longer takes generations to transform our economy—only a decade or two. We must thus focus our attention on the job replacers. Who are they? In what sectors of the economy are they found? How big are they? How old are they? Where are they located?

For one thing, job replacers tend to be small. Of all the net new jobs created in our sample of 5.6 million businesses between 1969 and 1976, two-thirds were created by firms with twenty or fewer employees, and about 80 percent were created by firms with 100 or fewer employees (see Table III). Smaller businesses more than offset their higher failure rates with their capacity to start up and expand dramatically. Larger businesses, in contrast, appear rather stagnant. They may be expanding output with more capital equipment (although those who study productivity suggest that this has not been the case recently) or they may expand by opening opera-

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TABLE III. *Percentage of Jobs Created by Size of Firm and Region* [1]

Number of Employees in Firm	Percent of Jobs Created				
	Northeast	North Central	South	West	US. Average
0-20	177.1%	67.2%	53.5%	59.5%	66.0%
21-50	6.5	12.0	11.2	11.6	11.2
51-100	−17.4	5.2	5.5	6.3	4.3
101-500	−33.3	3.1	9.4	9.3	5.2
501+	−32.9	12.4	20.4	13.3	13.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Source: M.I.T. Program on Neighborhood and Regional Change.

tions abroad. Whatever they are doing, however, *large firms are no longer the major providers of new jobs for Americans.*

Another distinguishing characteristic of job replacers is their youth. About 80 percent of the replacement jobs are created by establishments four years old or younger (see Table IV). Not all small businesses are job creators. The job creators are the relatively few younger ones that start up and expand rapidly in their youth, outgrowing the "small" designation in the process.

Job creators are also quite volatile. The road to future growth is a tortuous one indeed. We had thought that a firm grows and develops much like a human being: It starts small, grows smoothly and rapidly during a "growth phase," matures and stabilizes for some period, and eventually becomes out-dated and falls off. Our research now suggests quite a different process. Dynamic, job creating establishments appear to oscillate, or pulsate, constantly. Periods of expansion are the best predictors of future decline, and declining periods are the foundation upon which future business growth is based.

TABLE IV. *Percentage of Replacement Jobs Created Between 1974 and 1976 by Age of Establishment and Region* [1]

Age of Business	Percent of Replacement Jobs Created			
	Northeast	North Central	South	West
0-4	75.5%	80.8%	80.4%	80.9%
5-8	10.4	8.4	9.9	8.8
9-12	7.5	6.0	5.1	5.5
13+	6.6	4.8	4.6	4.8
Total	100.0%	100.0%	100.0%	100.0%

[1] Source: M.I.T. Program on Neighborhood and Regional Change.

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TABLE V. *Performance of Establishments based on Their History of Growth*[1]

1969-1972 History	PERCENT IN 1974-1976 WITH: RAPID GROWTH	RAPID LOSS	DEATH
Rapid Growth[2]	11.1%	16.5%	4.3%
Small Change	9.4	7.6	24.6
Rapid Loss[2]	21.9	8.0	12.6

[1] Source: M.I.T. Program on Neighborhood and Regional Change.
[2] Greater than 50% change.

Stable firms, those that have somehow isolated themselves from the ups and downs in the world around them, are the most likely to fail in the end. A sample of 1.4 million establishments that existed throughout the 1969-76 period shows that establishments that grew sharply in the past are the most likely to decline in the future, that recently declining establishments are the ones most likely to grow in the future, and that stable firms are far and away the most likely to go under (Table V). These oscillations from one year to the next are much greater than the average growth or decline that one would expect from a "life-cycle" model of corporate change. Those firms that insulate themselves from fluctuation appear to have cut off the very vitality that keeps their counterparts going. Just as failure appears essential to our system, so does instability.

Recent job replacers overwhelmingly tend to be providers of services—broadly defined to include all those private activities outside of the so-called "goods-producing" sector (manufacturing, agriculture, mining, and construction). During the period we studied, manufacturing firms in our sample actually lost jobs on balance, this small loss being offset by substantial gains elsewhere. The older, more northern, and more urban the area, the more this was true. Manufacturing picked up slightly nationwide during the latter part of the decade, but by the time the 1970-1980 U.S. figures were in, manufacturers as a group had created only 5 percent of the net new jobs in the 1970's and the goods producers as a whole accounted for only 11 percent. The other 89 percent were in services of one kind or another. Just as we moved in the 1820's and 1830's from being a basically agricultural society to being an industrial one, so now are we rapidly abandoning our heavy industrial base in favor of jobs that demand greater use of our minds and less use of our muscles and dexterity.[1]

[1] There are bright spots within the sluggish manufacturing sector including very small manufacturers and high-technology, high "thought-content" firms. The bright spots are not bright enough, however, to significantly offset the general malaise elsewhere.

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These basic shifts in the nature of job replacement are not unique to the U.S., although we tend to be further advanced along this path than other nations. Nor are the findings unique to our data set or approach. Others, here and abroad, using different ways of measuring the behavior of individual firms, are finding much the same thing.

The transformation is thus a fundamental and far reaching one. We are moving from manufacturing to services, from hardware to "thoughtware," from large-scale capital-intensive companies to smaller-scale labor-intensive companies, and from a dependence on physical capital to a dependence on human capital. These shifts have been facilitated by the increasingly international nature of our economy. We no longer have to make what we consume. Instead, we increasingly create and market products that we let others assemble for us. As a result, our exports and imports have risen from 7 percent of GNP in 1950 to 15 percent in 1979, and our private assets abroad have increased from $19 billion to $377 billion over roughly the same interval.

Intervene or improve the climate?

Those who would try to influence our economic system during this sometimes difficult period of transition are faced with some very thorny problems. At the heart of the matter is the age-old problem of choosing between a direct interventionist policy or an indirect improve-the-climate policy.

Those advocating a direct policy would have us provide assistance to individual companies or industries through government actions of some sort—loans, loan guarantees, contracts, grants, import restrictions, etc. Going the climate-improvement route involves changing the general tax and regulating environments in ways that entrepreneurial business people find attractive, thus letting the market determine who flourishes and who does not.

A direct policy is, and always has been, a "natural" for governments. It gives them a feeling of accomplishment—a series of deals (and jobs created) that they can point to with pride. Thus, it is not surprising to find that we have a broad array of such programs spanning several administrative branches of government, from the federal to the state and local levels.

In view of our findings on job creation and shifts in the economy generally, it appears that a direct intervention will become increasingly difficult (and frustrating) to administer. How, for instance, is

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an official at any level of government going to decide whom to aid? In the past, the most natural choice has been the large, stable, well-known companies because they could easily be identified (their well-financed lobbyists made sure of that) and because their risk of failing in the short-term was minimal.

But these are the companies that are the least likely to create jobs. And assisting them has a long history of not working. The Dutch and British, who have gone much farther down this road than we, have had many failures and very few successes. Our own experience, while far less extensive, is not too encouraging either. Propping up large-scale, noncompetitive private bureaucracies seems to subsidize incompetence rather than cure it.

If these same interventionists choose to redirect their efforts toward the smaller end of the scale, their problems are no less severe. How will they pick the one out of 100 or 300 small firms that will become a major job creator? How will they absorb the enormously high transactions cost associated with making thousands (or hundreds of thousands) of small-scale interventions? How will they endure the embarrassment and threat of scandal associated with a project failure rate of 30, 40, or 50 percent? These problems are not unique to government agencies. They explain in great measure why banks, insurance companies, pension funds, and university endowments are equally hesitant to become involved in small-business affairs, and why some very high percentage (in the range of 80 to 90 percent) of all startup and expansion capital for smaller businesses comes from immediate, personal sources: personal savings, friends, and relatives.

Furthermore, smaller businesses apparently do not want direct assistance. Not a single recommendation coming out of the recent White House Conference on Small Business asks that government programs or regulations be increased. The practically universal cry of owners of small businesses is that governments establish a more favorable climate and let entrepreneurs run their businesses as only they know how.

This cry, and others like it, have led many in Washington to consider seriously the value of a predominantly "climate" policy. Its purpose would be to create an environment in which innovative, job-creating firms flourish. Since smaller businesses appear to be playing an increasingly important role in the economy, special attention is being paid to their concept of a good economic environment. Following their recommendations to the White House Commission on Small Business, the list of improvements would include:

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(1) lower personal taxes on capital gains, (2) lower estate taxes (so companies may be kept within a family), (3) a slower rise to the full corporate tax rate (to compensate for the unintended progression into higher brackets caused by inflation), (4) fewer and simpler regulations, (5) simpler depreciation rules, and (6) equal opportunity for smaller business in goverment procurements.

We should not infer from the recent interest in climate policies that they are universally embraced by governors and mayors. For one thing, there would be a relatively small role for these elected and appointed officials to play in the management of our economy. There are also definite problems associated with depending entirely on smaller businesses to create jobs. They have little capacity for example, for conceiving, developing, and marketing the kinds of products and services that can only be provided on a large scale—jet aircraft, large-scale integrated circuits, space shuttles, communications satellites, telephone service, etc. Smaller businesses seem to function much better as subcontractors to larger companies in these situations, relying on the larger company for the design and international marketing aspects of the job.

The reindustrialist illusion

The choice between direct intervention and climate policies will ultimately depend on what we wish to accomplish. An increased emphasis on business climate will more than likely accelerate the trend toward the dominance of smaller service-sector firms as the sources of new jobs in our economy, an increasing dependence on foreign countries for manufactured goods, and an increasing dependence on investments in human capital rather than physical capital, with all the attendant declines in measured productivity that would entail.

There are some who find this natural trend threatening. Pointing frequently to the Japanese and their increasing dominance of what used to be many of our markets, they advocate that we "reindustrialize"—that is, go back to investing more in plants that will make things more efficiently so we can meet foreign competition in markets we are now losing. Since our private sector companies do not seem to be doing this on their own, the argument goes, some form of intervention is called for.

There are several problems associated with this attempt to roll back the clock. First, it is not clear what "universal solvent" we dip our noncompetitive industries into so that they suddenly become

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creative again, invest in new technologies, and work harder. Protective tariffs and import restrictions will certainly not accomplish it. Forced savings by households and businesses to finance needed physical capital (a common practice in Japan) is certainly not part of our culture.

Secondly, it is not clear that we *should* devote a tremendous effort to find a universal solvent. In our almost compulsive fascination with the Japanese and the effectiveness with which they have competed in certain markets (automobiles, electronics, watches, etc.) we lose sight of our competence in producing the "thoughtware" upon which so much of the Japanese hardware is based. It is not an accident that of the 176 Nobel science prizes awarded since 1950, the United States has received 93, the European community another 68, and Japan only two. We dominate the thoughtware field just as others are coming to dominate hardware production. And the emphasis in many fields is shifting from hardware to thoughtware. It was not uncommon five years ago for 90 percent of the cost of a computer installation to be in hardware, and only 10 percent in thoughtware (software, as the computer industry calls it). Five or ten years from now, it will not be unusual for those percentages to be reversed—80 or 90 percent software and only 10 or 20 percent hardware. For many of the same reasons, *Robotics Age* (one of the journals of the blossoming robot industry) recently changed its name to *Robotics Age: The Journal of Intelligent Machines*, saying: "... the character of the industrial robot market is rapidly moving towards increased intelligence in the controller. As this happens, the nature of the problems, both in design and application, is quickly changing from hardware to software."

What it comes down to, then, is this: Do we want to try to beat the Japanese (and others like them) at their game or play our own game instead? The evidence we have collected suggests that: (1) the odds of our beating them at their game are slim, and (2) that we are doing quite well at our own game if we can recognize it for what it is. We have spawned an extraordinary number of idea factories—in universities, businesses, and government—that generate a high percentage of the world's original ideas and that now provide employment for a greater percentage of our work force than ever before in history. In the absence of a major international conflict, this division of labor between ourselves and those who choose to make things is not necessarily bad and could well, given present trends, turn out very much in our favor.

We pay a price during a transformation of this sort. The relatively

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few workers who still make things in factories[2] must adjust to different kinds of employment. Our enormous mobility gives us an advantage over other nations whose people are less mobile. But we are still left with older, skilled craftsmen for whom moving and retraining does not come easily.

Also, in the unfortunate circumstance that we enter another world war, our dependence upon others for manufactured goods could turn out to be a major liability. It already is. Every time imports rise as a percent of our GNP, our dependence increases. Furthermore, to the extent that our dependence is concentrated in selected areas (transportation equipment, electronics, computers, steel, petroleum) the effect could be even more crippling. We have experienced it recently in oil; the Russians are now feeling it in food.

National security is a major, compelling argument for stemming the present tide. It is a strong argument, and is not easily dealt with. Patriotism alone will not make our automobile plants or our steel plants or our computer plants more competitive. Nor are trade barriers and protection likely to lead to the superior technology we would need to succeed in the very conflict we are hedging against. In short, we still seem to lack the "solvent" to transform our noncompetitive industries in peacetime even if we decided, as a national policy, that it was important to do so.

Thus develops a more interdependent collection of nations in which we play a specialized role. Luckily ours is one of the more interesting and promising parts in the play. And we seem, without strong supporting policies, to be developing a mix of larger and aggressive smaller businesses to play our role well. Perhaps we should spend less time worrying about what the Japanese do better, and worry instead about how to do better what we do best.

[2] About 13 percent of the workforce is still engaged in actual manufacturing operations, as distinguished from those who manage or sell or account for the goods made by the others in firms labeled "manufacturing."

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Refugee resettlement: the infighting in Washington

AMITAI ETZIONI

In early 1979 the Carter administration found itself facing a refugee crisis as mounting political tensions throughout Southeast Asia increased the number of people seeking asylum in America. Refugees began arriving in the spring of 1975 after the collapse of noncommunist regimes in Laos, Vietnam, and Cambodia. The flow subsided somewhat until 1978, when renewed fighting generated a new wave of refugees. Thousands of ethnic Chinese fled Vietnam after the war erupted between Vietnam and China in 1979, and Vietnamese expansion also created a new flow of refugees from Laos and Cambodia into Thailand.

By early 1979 Thailand, Malaysia, and Indonesia were beginning to refuse more refugees, and even threatened to repel them by force. These countries still had thousands of refugees remaining from the initial exodus of 1975; by June 1979 there were approximately 370,000 refugees in camps throughout Southeast Asia. At a special United Nations meeting covened in July 1979 to address this problem, the developed nations, including the U.S., pledged to accept more refugees. In June 1979 President Carter had committed the U.S. to doubling its admissions ceiling for Indochinese refugees from 7,000 to 14,000 per month, or 168,000 per year.

In addition to this influx from Southeast Asia, refugees from Eastern Europe, most of them Soviet Jews, began coming to the U.S. in

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larger numbers after the Soviet Union relaxed its emigration restrictions in August 1978. As many as 4,000 Soviet refugees arrived each month, compared to the previous level of 1,700 to 1,800 a month.

Faced with increasing numbers of refugees, the U.S. tried to organize its refugee services more effectively. The office of U.S. Coordinator for Refugee Affairs was created, and former Senator Dick Clark was appointed Coordinator in February, 1979. He was to coordinate various activities of federal agencies such as AID, HUD, the Department of Justice, and ACTION. In addition, he was to act as liaison between the federal government and state and local governments and voluntary agencies. With limited authority, funds, and staff, he did not coordinate very much in the short time before he resigned in October 1979.

In March 1979 the Refugee Act was introduced into Congress in an effort to harmonize existing disjointed refugee legislation. Versions of the act passed both House and Senate in 1979, and a final version became law in 1980. This law increased the admissions ceiling for refugees to 50,000 a year, a jump from the previous level of 17,400. (In fact, as many as 200,000 refugees a year have been admitted using the Attorney General's special "parole" authority, with the consent of the President and Congress, to temporarily raise the legal admissions ceiling.)

But these measures, designed chiefly to make refugee entry into the country easier, did not really address the issue of their resettlement. Until the Indochinese influx, private sector voluntary agencies (commonly referred to as "volags") had handled the resettlement of refugees with little government help or interference. Among the better-known agencies were Church World Service, the International Rescue Committee, the United States Catholic Conference, and the Hebrew Immigrant Aid Society.

John McCarthy, of the U.S. Catholic Conference, estimated that such private agencies had resettled nearly two million refugees since World War II. (The volags did not operate completely on their own, however; they received partial funding for their efforts from the federal government, mainly through the Departments of State and HEW.) This traditional process of refugee resettlement was beginning to show signs of strain by the fall of 1979, both because of the rapid increase in the number of refugees entering the country and because these refugees were generally less educated and less easily assimilated than those in the first waves fleeing southeast Asia after the fall of Saigon.

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Two tragedies involving refugees helped publicize the growing strain. In Iowa, one family of Hmong refugees (from a Laotian tribe) attempted suicide when they grew frustrated trying to communicate with others in the town and to adjust to life in the U.S. In Seadrift, Texas, tensions flared between Texan and Vietnamese fishermen competing for fish in a small area. Animosity turned to tragedy when a Vietnamese fisherman fatally shot a Texan fisherman during an argument. Incidents of violence were also reported in Wisconsin, Colorado, and North Carolina.

The White House becomes involved

These tragedies did not go unnoticed by the White House staff. On November 2, 1979, in a memorandum to Stuart Eizenstat (Assistant to the President for Domestic Affairs and Policy), Ellen Goldstein (Assistant Director of the Domestic Policy Staff) warned of a "serious crisis—the inability of current resources, public and voluntary, to meet the needs of the Indochinese refugees, a crisis which, both in human terms and politically needs stronger attention and attack."

As a "Senior Advisor" brought to the White House to bring the insights of the social sciences to public policy, I immediately became involved in the resettlement issue. Dick Clark had just resigned his post and the refugees simply were not a high priority topic. Stuart Eizenstat, covering all domestic matters, set up an interagency task force to review the domestic resettlement process and make recommendations for its improvement. In a memorandum to the senior White House staff dated November 19, 1979, he expressed his concern:

> about the inability of our domestic resettlement machinery to handle adequately the increase in the flow of refugees. I recently asked Matt Nimetz, the Acting Coordinator for Refugee Affairs, and Nathan Stark, Under Secretary of HEW, with special responsibility for the refugee program, to put together a Task Force which could, on a short-term basis, assess and make recommendations for upgrading our service effort and capability.

Eizenstat asked the White House staff for volunteers to advise and assist on this project, and instructed interested persons to report to Ellen Goldstein and Frank White (Associate Director for Civil Rights and Justice, Domestic Policy Staff). The refugee issue seemed another opportunity for a social science "input." As there was not exactly a flood of senior staff eager to work on the issue, I simply

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dropped by the suite of offices shared by Frank White and Ellen Goldstein and was handed a stack of draft reports that four panels of the interagency task force were preparing on how to deal with the question.

The draft reports struck me as having a leitmotif which, while never explicitly stated or confronted, ran through all four subreports on orientation, employment, community relations, and housing. All in effect leaned toward "federalization" of the problem. The orientation work group, for example, concluded that:

> the formalization of post-arrival orientation . . . must be accomplished through the development of local coordinating mechanisms which will effectively relate the many resettlement resources, private and public, which are found at the local level.

The report made it clear that such local mechanisms were in fact to be branches of the federal government:

> A number of possibilities exist to improve local coordination, including the fact that the principal public service agencies involved in resettlement (HEW, DOL, HUD) and resettlement agencies have local offices or representatives in many areas with numerous refugees.

The housing work group urged similar federal involvement:

> Immediately, HUD, HEW, or the Coordinator's Office should continue the job begun by the housing work group to effectively identify the communities critically in need of assistance, and the type of assistance required by these highly impacted communities. HUD should provide housing counseling to refugees and resettlement offices, particularly in high impact communities. The Coordinator's Office, the Department of State and HEW should immediately begin a study of the feasibility of redirecting refugees from areas of heavy concentration to areas with relatively few refugees which have been determined to have adequate housing and other resources.

Community relations was another area requiring enhanced federal involvement. The work group recommended:

> —That, under the direction of the Coordinator's Office, the Public Affairs and Community Tensions Workgroup be constituted as an ongoing public affairs policy body.
>
> —That the U.S. Coordinator for Refugee Affairs direct each agency to submit by January 15, 1980, a public affairs plan in support of the resettlement effort.
>
> —That federal agencies . . . be directed to provide answers to key questions regarding their role in refugee resettlement by January 11, 1980. These answers will be used to prepare basic speeches and publications and to provide questions and answers to federal and other supportive

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> speakers. It will also permit the Coordinator's office to direct attention to problem areas or areas in which answers are unavailable or unsatisfactory.

Finally, a background analysis of the refugee situation, drafted by HEW, recognized the private sector's role in resettlement:

> It would be short-sighted if the consequences of government actions to cope with the current situation were to debilitate those private institutions which, in the past, have taken and, in the future can take a special interest in refugee resettlement.

Nevertheless, the report pushed for increasing the federal government's involvement:

> At the same time, it was a public decision that brought the refugees to the U.S. and it will be public actors, by and large, that will be held accountable for the effectiveness of the domestic resettlement process.

After reviewing the existing resettlement process, the HEW background analysis concluded:

> If the confusion and fragmentation which exist in many areas of refugee concentration are to be ameliorated, the federal government will need to designate—and fund—lead agencies to carry out this responsibility.

And, more specifically:

> The President, in particular, but the Vice President, Domestic Policy Council, the U.S. Coordinator's Office, and Secretaries of various Cabinet Departments as well, need to provide the leadership that is required to translate this national commitment to domestic receptivity, understanding and commitment.

In short, the background analysis and draft task force recommendations called for increased federal involvement in studying the problem, in managing it, in guiding private sector actions, indeed even in orchestrating public relations.

Why not use voluntary groups?

Confronted with a "new" social problem, a sudden increase in the influx of refugees to the United States, I suggested that the federal government *refuse* to buy into it, and instead turn it over to the private (voluntary) sector. Instead of pursuing the course of the 1960's, throwing a federal bureaucracy and public funds at each new problem, the government should approach the influx of refugees as ideally suited for a dry run of a new 1980's approach. The government, and specifically the White House, would act as a catalyst and

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convener, but not as the responsible party. It would help launch a National Emergency Coalition for Refugees—composed of voluntary agencies, religious groups, and private charities—and turn the matter over to them. They would raise the funds, fashion the program, mobilize volunteers, and help the refugees to become part of the community.

After I reviewed the voluntary option background materials, I wrote a memorandum to Goldstein and White which explained why I thought a "hinge" decision on the refugee problem was needed:

> The question is: What is the proper federal role? While there are many options, and possible mixes of alternatives, all the memos implicitly lean heavily in one direction—that of federal leadership, guidance, coordination, and finance, of a multi-facet drive (employment, housing, etc.), though involving also public leaders, state and local government, and others.
>
> The main alternative is for the federal government to serve as a catalyst for voluntary, religious, community and other private agencies and foundations, expecting that a coalition of these agencies will lead, guide, coordinate, and finance the drive. The Feds, in conjunction with state and local governments, will serve as the refugees' patron of last resort.

I gave two reasons for favoring this alternative:

> Regarding the general posture, the public is sick and tired of the Feds taking on more and more issues, often not solving them, at increasing costs, etc., etc. It has been the general orientation of the Carter Administration *not* to follow the Great Society—throwing millions of dollars and Feds at each problem—but to rely more on the private and voluntary sector.
>
> Second, the refugees are *particularly well suited* for the Feds' backseat approach. It is a relatively *limited* and *transient* problem as compared, say, to poverty, unemployment, inflation—hence, relatively easier to handle, more suitable for voluntary-private efforts.

In a later memo I explained further:

> The basic concept is of the government acting as a catalyst, an indirect provider of housing and jobs, and patron of last resort—but not the lead, the lightning rod, or "visible mailing address" for the whole drive. The Feds' role here would be similar to its role in blood banks—not as in welfare.

There followed a sequence of meetings, usually in Goldstein's office, in which options were discussed. I also briefed Nathan Stark, Under Secretary of HEW, and his staff. These discussions uncovered the first objections to the voluntary option: The first, raised by

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White, concerned the scope of the task involved; the second, raised by Goldstein, concerned the relations between the small volags and the large ones.

White pointed out that while the volags might be able to handle the "soft" tasks of teaching English, acculturation, and finding community hosts, they could not be expected to generate jobs and provide low-income housing. Both of these, White thought, would require more resources than could be provided by the voluntary community. He was also sensitive to the fact that if newly created housing was specifically set aside for refugees, American minorities would protest. Housing had been a traditional source of friction between refugees and minorities, who competed with each other for the limited number of available low-cost units. This conflict intensified with the concentration of new refugees in a few cities and states, resulting partly from resettlement workers' policy of uniting families or persons of similar backgrounds, and partly from the desire of refugees to find others of their own backgrounds.

The Indochina Refugee Action Center (established by foundations to aid in refugee program planning) found that in cities like New Orleans and Denver, with large refugee populations, it was not uncommon for twenty-five refugees to crowd into a one or two bedroom apartment. According to the Housing Work Group,

> nine out of ten refugee-related community tension incidents responded to by the Justice Department's Community Relations Service are triggered by housing issues.

Blacks and Chicanos believed local officials were moving refugees to the top of the waiting list for public housing. (Waiting periods for such housing already lasted as long as five years.) The resulting tensions between minorities and the refugees sometimes erupted in violence. In Denver a group of Chicano youths smashed apartment windows and vandalized the property of refugees to protest the "special treatment" refugees were receiving in public assistance and housing.

Tensions were also generated over employment, another issue the volags seemed unable to handle adequately. A California newspaper reported:

> bitter feelings among Hispanics in the state over what they perceive as competition for jobs and social services because of the refugee influx. The Rev. Warner Brown of the Methodist Church cited Hispanics' fears that refugees are being hired for farm work.

The situation was so hostile that the convening speaker of a regional

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conference of resettlement workers warned participants that they were working with "social dynamite."

Reworking the voluntary option

In response to White's points, the voluntary option was modified. Refugees, I suggested, should immediately have help from a labor exchange in finding jobs, and they should be eligible for unemployment benefits. The administration should also apply to Congress to provide funds for low-income housing. To avoid tensions with minorities, this additional housing should not be earmarked for refugees, but instead should restore the low-income housing market to the level that existed before the refugee influx. After this modification, White supported the voluntary option in presentations to Stuart Eizenstat and Victor Palmieri, newly appointed by President Carter as U.S. Coordinator for Refugee Affairs.

The second issue, to which Goldstein was particularly sensitive, was the danger that pulling in the big voluntary agencies (such as the Red Cross, the YMCA, and the United Way) would offend the smaller volags that traditionally had handled refugee resettlement. Goldstein had noted earlier that these volags resented outside interference on what was customarily their "turf"—they "have the attitude that, because they've been doing this kind of work for years, they do not need any guidance from the government." She feared they would also resent infringement by other volags.

Indeed, this issue kept coming up when I met later with the heads of big voluntary agencies, such as Bill Aramony of the United Way and George Elsey of the Red Cross. While I discussed this with Goldstein and Palmieri, we found a solution. The volag turf could be divided the way the European powers divided Africa into designated turfs during the Conference of Berlin in 1884, at which each power kept to its allotted space. In the same vein, we concluded that the smaller volags could handle the overseas treatment of the refugees and keep "first landing rights." They would continue to find American "sponsors" (without which refugees could not enter) and help the refugees on their way to their sponsors. The big volags would deal with domestic resettlement, the problems which arose when refugees left their sponsors and aggregated in few localities or otherwise overwhelmed the first line of settlement. Once this wrinkle was added, Goldstein was more comfortable with the voluntary option.

The two issues raised by White and Goldstein and the subsequent

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modifications of the voluntary option illustrate the process policy ideas typically go through in the White House. The modifications introduced in response to their concerns did not change the essence of the voluntary option, but they did make it much more practical, smaller in scale, and politically acceptable.

After these first objections to the voluntary option had been worked out, Victor Palmieri raised a second set, harder to resolve than White's and Goldstein's. Palmieri doubted that the big voluntary agencies would take on the mission. At my suggestion the agencies feelings on the subject were informally explored. Their responses varied from cautious endorsement to considerable enthusiasm. The cautious endorsement came from Bill Aramony of the United Way. The United Way is an uneasy coalition, and constantly faces demands from member groups for a larger share of its resources; to take on a major additional mission would further strain the coalition. At the same time, Aramony was challenged by the task and the voluntary approach. He suggested that United Way executives could play a key role in bringing it about. In addition, he invited me to a seminar the United Way held for seventeen major voluntary groups, including the National Urban League, Catholic Charities of America, and the Salvation Army. I discussed the voluntary idea briefly with many present, and nobody thought it was infeasible.

The head of the Red Cross, George Elsey, was outright enthusiastic about taking on a new mission, once assured that he would not be invading other voluntary turf. In informal, not-for-attribution comments, so were the heads of the YMCA, the National Council of Churches, and representatives from the American Jewish Congress.

Landrum Bolling, Chairman of the Council on Foundations, offered to take the voluntary idea to Mrs. Carter. In a later interview, he commented: "I personally was very much taken with the idea and still am." He added,

> It's very important to integrate the refugees into the communities, and the voluntary agencies can do this more effectively than the government.

Hamp Coley, Senior Vice President of United Way, seconded this sentiment:

> Because there is no longer a "typical" American community nor a "typical" refugee, federal programs cannot hope to completely replace the flexibility, commitment and reflection of local attitudes that voluntary agencies provide and successful assimilation requires.

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In all but two of the discussions I had before I reported back to the White House, the question of federal funds was raised. The volags were used to getting federal funds to support their work (both in bringing refugees to the U.S. and in other areas, such as social services), but these were small amounts. I insisted, though, that they would have to raise their own funds, pointing out that $200,000—twice the anticipated amount—had been raised by the Theater Committee for Cambodian Refugee Relief in a few nightly collections on Broadway. I agreed that this was possible only for an emergency period (say two years); once the issue's mobilizing effect declined, it might well be more difficult to raise funds. But for now, with housing and jobs excluded, the voluntary agencies were to raise the funds; otherwise it would not be a "voluntary" effort.

A chilly reception

I reported my findings in a memorandum to Palmieri:

> Following our lunch and your suggestion, I explored informally if major voluntary agencies and foundations would be willing to share the burden of helping to absorb into the community large numbers of refugees. The answer is clearly in the affirmative.
>
> It was assumed, in these explorations that:
>
> 1. They would raise all or most of the funds needed for their part of the mission and/or provide volunteers.
> 2. It was assumed that they will not seek to compete with, duplicate, or otherwise interfere with the specialized voluntary agencies now involved; that they would focus on refugees after arrival in the country and after initial service; absorption into the community would be the focus.
> 3. It was assumed that the focus will be "soft" services: not building low-income houses or creating jobs.
> 4. It was assumed that if funds and volunteers would be provided by the volunteer sector, this would be in the context of a full partnership with the government, not as a step-cousin.

Having ascertained that the big voluntary agencies seemed willing to take on the task of domestic resettlement, I suggested as a next step an informal meeting between Palmieri and the heads of these agencies. He refused. In a memo to me dated March 18, 1980, he explained:

> While I think your suggestion is a good one, attempting to organize this right now would complicate some of my first priorities.

Palmieri's motives were quite evident. If a national emergency coalition were to take over, what would his job be? His idea was to

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create a new federal agency, or at least federal "network," coordinated by him.

Palmieri had a strong management orientation that, more than any other factor, may account for his approach to the refugee problem. Before being named Coordinator he had been chairman of his own management company, where he gained a reputation as an expert corporate crisis-manager. In various meetings Palmieri put the emphasis on data collection, analysis, improving internal management systems, accountability, and establishing evaluation mechanisms, all of which were presented as part of "good management." There is no question that work by the volags was not "efficient," as voluntary work often is not. Palmieri favored rendering their effort more efficient, without worrying that in the process he would "federalize" them. I would have preferred living with less efficiency, and less of a federal role. I did not think we were discharging those duties the Carter administration had already undertaken.

Others who knew Palmieri believe his reluctance to support the voluntary option reflected more the intense pressure he was under than his views of the private voluntary agencies. Among them is Robert Stein, former director of the Indochina Refugee Action Center. Stein talked with Palmieri early in 1980 about increasing private sector involvement. He comments,

> Trying to introduce a new type of coordinating mechanism during the crisis was more than the system could handle. It was not that Palmieri didn't believe in the private sector or that he favored a heavy federal role; rather, it may be that he was just unable to seriously consider a new approach when he had so few resources and time.

White and Goldstein made several attempts to prod Palmieri to consider the voluntary option but he continued his opposition. On March 18 Palmieri wrote to White:

> Carol Hecklinger informed me that at a recent meeting you expressed a strong interest in acting on Dr. Etzioni's "voluntary option."
>
> I think Dr. Etzioni's idea is useful because one of our major problems in the resettlement area is the incapacity of the traditional organizations to maintain contact with the refugees and to follow up with support after the initial reception activity. Right now, however, given the other priorities in the picture, I do not intend to try to follow up in a major way.

White and Goldstein maintained their stance:

> We continue to believe the proposal should be carefully considered and that, if it has any value, we should know now while we are *planning* new and/or expanded services.

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To the uninitiated, it might seem that the White House could simply order Palmieri to follow a particular policy line. This was not the case. First, the White House was as a rule reluctant to *order* agencies around; it prefered to convince or cajole, and Palmieri was not moved by these approaches. Second, Palmieri did not outright refuse; he just dragged his feet. And third, middle-level White House staff were dealing with the issue, and they did not find it wise to confront him. It would have taken at least a presidential directive to move Palmieri, and the president was busy with more weighty matters.

Success in failure

What happened next? The predictable unpredictable. Suddenly, out of the blue, the whole Indochinese refugee issue was swept aside by a massive influx of Cuban refugees. Beginning in late April, 1980, the flood of Cuban refugees swamped the flow from Southeast Asia. By fall, over 125,000 Cubans had entered the U.S., and over 12,000 Haitians as well.

This helped Palmieri, since it seemed obvious that the federal government had to be involved in refugee resettlement. As security and health checks were not conducted in preparatory camps overseas, these tasks had to be carried out in the U.S. These refugees came without sponsors to receive them and help integrate them into American communities. It seemed the federal government had to handle the matter.

For a while, Palmieri seemed to have won. Congress granted him funds and a staff; the Office received approximately $750,000 during this period and had an authorized position complement of fifteen people. He was on his way to setting up yet one more bureaucracy. The federal government sought to play a central role not only in the inevitable first screening of Cuban and Haitian refugees, but also in their settlement.

As the weeks and months passed, it turned out that despite the huge increase in the number of refugees and federal involvement the small volags and individual volunteers actually did most of the resettlement work on their own. Significantly, voluntary agencies took the responsibility for finding sponsors for the Cubans and Haitians in the federal camps, a crucial step in the resettlement process. The U.S. Catholic Conference alone volunteered to resettle 65 percent of the incoming Cubans. Approximately 100,000 Cuban refugees were resettled over the summer, mostly with families, friends,

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or private employers. Indeed, many refugees simply "disappeared" once they landed and were absorbed into the community. In addition, Cuban-American associations raised large donations and provided free medical services for the refugees in the government's camps. By September about 20,000 Cubans remained in federal camps, most of them "difficult" cases—2,000 were convicted felons, and another 10,000 to 15,000 were physically handicapped, unskilled, or juveniles without parents in this country. By November 1980 only 6,900 Cubans and 600 Haitians remained to be resettled.

Ironically, the failures of the voluntary resettlement process, rather than its successes, made the headlines. For instance, a *New York Times* headline, dated December 18, 1980, read: "Many Cubans Remain Hard to Place in U.S." The story reported that about 8,000 of the 125,000 Cuban refugees were still in camps and in prison. It also noted that many of the "resettled" refugees had problems with their initial sponsors. But the reporter's assertion that many were "at loose ends on the street" was not substantiated. Indeed, most who had "first sponsorship" problems were subsequently resettled elsewhere, either through second sponsors, or by making it on their own.

Other newspapers showed the same kind of misplaced emphasis. A *Washington Post* headline, dated February 10, 1981, read: "Resettling of Cuban Refugees Is Proceeding at a Slow Pace." The story concerned one Luis Valladares who was "finally" on his way to a sponsoring family, "joining the 120,000 Cubans who have been resettled in the last several months." Another 4,750 therefore remained unsettled. Slow? Well, maybe—but what is the right pace for settling 125,000 refugees, especially when the ones remaining in camps were especially hard to place because of criminal backgrounds, handicaps, and the like?

Many other news reports had the same tone. The press is often charged with stressing problems rather than "good" news. Reporters counter that they report events as they find them. In the case at hand, the press emphasized the situation of the few Cubans remaining in the camps rather than the vast majority who were resettled, making it seem as though most were *not* taken care of for long periods of time.

To be sure, the resettlement work was not problem-free. Some of the Cubans who had been resettled over the summer experienced sponsorship problems and had to be resettled yet again. The Cuban-Haitian Task Force, a federal agency, estimated that "the sponsorship breakdown rate among the 116,000 Cubans who had initial

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sponsors was from 3 to 5 percent"; other sources placed it higher. Nevertheless, the overwhelming majority of the refugees were resettled successfully.

The future of voluntary action

As I see it, the bureaucrats won all the battles but lost the "war." Most refugees, including the Cuban-Haitian tidal wave and those who arrived without sponsors, were resettled the voluntary way.

What remains unsettled, though, is the question I brought up months earlier: What is the proper federal role? This question is being asked by others as well, and the search for alternative methods of resettlement continues. Hamp Coley, Senior Vice President of United Way, favors a government-private sector partnership:

> A true partnership of the public and voluntary sectors—with an appropriate mix of funds, with a mechanism for continuing support of voluntary efforts, and with a planning and management process that allows for action instead of reaction—is the way to optimize America's response to these people in need.

Robert Stein suggests another possibility, one that he advocated at the same time that the voluntary option was being discussed. Specifically, he recommended:

> a mechanism at the national level to stimulate new private sector involvement at the local level, perhaps initially in 10 to 15 communities heavily impacted by the refugee flow. Organizations such as the United Way, Red Cross, foundations, corporations, unions, and the national voluntary resettlement agencies could work with their local affiliates to develop a scenario, strategy, budget, and time line to increase coordinated private sector involvement aimed at integrating refugees into the communities. If this experiment worked, there would be a basis for encouraging new and dynamic private sector involvement in refugee work throughout the rest of the country.

Stein notes that it is time to explore ways of increasing private sector involvement in refugee resettlement. Now that the frantic edge is off, and the new administration is reducing the federal government's involvement in many areas, the volag affiliates at the local level are more ready than ever to expand private sector involvement and assistance.

What remains a barrier to discussion of these options, though, is something Landrum Bolling brought up in discussing the "voluntary option": government's mistrust of the voluntary sector. He comments,

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> One of the problems we face is that the "voluntary option" runs counter to a well-entrenched tradition in government; if the federal government puts money up, then a government agency must guide it along. There's a fear by some in government that if they hand control of the refugee resettlement process over to the voluntary agencies, they would waste money. There's a whole complex of negative thinking in the way many government people look upon voluntary agencies.

Bolling terms this a "failure of imagination."

As I see it, this barrier could be removed by letting the voluntary agencies raise the funds rather than using taxpayers' money. This would leave the government as employer of last resort, as a source of tax incentives for those who train *and* employ refugees and other unemployed, and as a source of low-income housing. Voluntary agencies and communities would take responsibility for all the other aspects of refugee resettlement, and the government would not need to worry about guiding, controlling, or managing their efforts. Indeed, as the volags often undertake these tasks *anyhow*, the government "concern" seems as much an excuse for intervention, where it is not truly needed in the first place, as a valid reason for avoiding the voluntary option.

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When science progresses and bureauracies lag— the case of cancer research

DAVID SALSBURG & ANDREW HEATH

THE notion that the progress of science and technology may unwittingly threaten human life is central to the argument for health and environmental regulation. Such a threat can exist, and justifies some sort of government control. But what are we to do when science progresses still further and finds that the apparent threats to health do not exist, or are very much smaller than originally thought? Unfortunately, government regulations and practices change and advance much more slowly than do the research findings of the scientific community, and this leaves a wide gap between the consensus of responsible scientists and those in government. The current state of cancer research is a good example of how this gap can develop and widen, ultimately confusing and harming the American public.

The public got wind of this gap in September 1979, when the National Cancer Institute (NCI) felt obligated to issue a pamphlet entitled "Everything Doesn't Cause Cancer." This pamphlet attempted to allay public fears that had been aroused earlier by the NCI's announcements that one chemical compound after another caused cancer in Institute-sponsored studies. In the preceding two years the NCI had issued reports on 184 fairly common substances and found that more than half were carcinogenic. Less than a third

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were given a clean bill of health. Something is wrong—either the very elements are conspiring to eliminate us, or the cancer researchers are getting false results.

A number of cancer researchers, however, saw the NCI's conflicting messages and the overwhelming grim test results as further vindication of their belief that there is something badly wrong with the way the NCI passes judgment on chemical compounds for carcinogenicity. For these critics, the question is not whether "everything causes cancer," but whether the animal studies of the NCI are relevant to the problem.

The design of these studies and the rules for interpreting the results were set up as a first approximation by the NCI and its advisors in the late 1960's when the NCI was planning the Carcinogenesis Bioassay Program. Since last year that program has come under the aegis of the National Institute of Environmental Health Sciences (NIEHS) as part of a vastly expanded and more grandiosely funded National Toxicology Program. Even so, the design of the studies and the method of identifying carcinogens continue to lead government regulatory bodies into a woefully simplistic reading of test results when they are clearly highly complex.

Out of the NCI program has emerged one puzzling anomaly—it appears most of the compounds which have been found to increase certain kinds of tumors actually *decrease* the incidence of other sorts of tumors. This anomaly has become the center of a heated scientific debate which has called into question all of the assumptions we have made about how to determine carcinogenicity and how to regulate substances thought to induce cancer. The scientific debate is unavoidably technical in nature, but it is important that the public understand the outline of the debate and why it is important.

In an unfettered scientific world, perverse test results and new knowledge would force scientists to make drastic reappraisals of the philosophical framework on which the experiments are based. Unfortunately, the environment in which cancer researchers (toxicologists) work today is set in a rigid regulatory mold. Laws have been passed by Congress, regulations proposed and promulgated, public stances taken, and the lines of debate drawn. As if to make the point, public statements by officials at the NCI, the NIEHS, and other government regulatory agencies show a determination to cling to the status quo.

If the doubters are proven correct, it will mean that not only has science been denied an opportunity to interpret its own findings in the light of new knowledge but that the American public has been

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deprived of many valid and valuable products, often at considerable physical and financial loss. It will also mean that industry has been penalized unfairly, and that local governments have been forced to make expenditures that in many cases are quite unnecessary. At the root of the dilemma is the failure of government agencies to understand the nature of scientific discovery, and to accommodate the evolution that has to occur in scientific knowledge and activity.

The history of cancer research

The hunt for chemical carcinogens began in earnest in the early 1950's. One of the earliest groups to become involved was the International Union Against Cancer (IUAC), an ad-hoc group of cancer researchers formed in 1954 to alert the world to their findings. The IUAC's concern was the result of earlier experiments showing that specific chemicals could cause cancer in mice, rats, and dogs. However, since few such chemicals had been found, it was assumed that chemical carcinogens were rare.

At about the same time, in a series of now classic experiments, Drs. I. Berenblum and P. Shubik came up with the cancer "initiator/promoter" concept. They found that when skin paintings of a potent carcinogen like benz-a-pyrene were followed by paintings of a non-carcinogen like croton oil, the occurrence of tumors was related to the time the second paintings began, and not the first. They understood that the first paintings with benz-a-pyrene "initiated" the cells, and that the "promoter" caused an expression of this latent tumor, whose message had been planted in the cell's nucleus.

The "causing" of latent cancer by a relatively small amount of a carcinogen was what concerned the IUAC, and its members urged the nations of the world to be sure that these dangerous "initiators" be kept out of the human food supply. What they did not know at the time was that potent "initiators" (like nitrosamines and aflatoxins) were already in the human food supply as components of natural products that had been consumed since the beginning of mankind. And thus, the initiation process was already latent in many humans.

The Delaney clause of the amended Food, Drug and Cosmetic Act of the U.S., which has regulated food additives in the United States since 1958, descends directly from a resolution of the IUAC. The clause states that:

> No additive shall be deemed safe if it is found to induce cancer when ingested by man or animal, or if it is found, after tests which are ap-

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> propriate for the evaluation of the safety of food additives, to induce cancer in man or animal. . . .

Although it applies specifically to food additives, the "zero risk" attitude of the Delaney clause and the underlying fear of silent, irrevocable "initiation" have come to pervade all other areas of testing for carcinogenic potential.

In the meantime, the chemical and drug industries developed a variety of animal tests with which to examine the general toxic potential of new chemicals. A typical study was the 90-day test in which three or more groups of animals were exposed daily to various doses of a compound, with an unexposed group set aside as a control. The highest dose was designed to determine the nature of the compound's induced toxicity, the lesser doses to determine levels of intake at which the compound was not toxic, and the controls to ensure that none of the lesions was the result of an event peculiar to the experiment.

By the mid-1960's, concern with the potential of chemicals to cause cancer had become widespread and attempts were made to set up definitive animal studies that would identify which of the thousands of chemicals in the human environment were carcinogens. The thinking of the IUAC—that a very specific sequence of biological events "causes" cancer, and that chemicals could be agents in that sequence —prevailed. From this, the NCI deduced that the propensity of chemicals to "cause cancer" is related to dose, and that higher doses will cause more cancer, and therefore the best way to detect a weak carcinogen is to use a very high dose.

Finally, since human cancers caused by industrial exposure did not appear until years afterward, NCI assumed that animal studies would have to run for the entire lifetime of the test animals. This assumption ignored the fact that the carcinogenesis experiments of the 1950's showed that cancers induced in mice and rats appeared within a few months of exposure and that the "initiation" of cancer faded away if the promotor was not applied within a month.

In summary, the NCI has made (and continues to make) four simple assumptions in conducting its tests:

1. Only a small number of chemical compounds causes cancer, and most forms of chemical toxicity will not lead to cancer. (Clearly, the NCI's test results and this assumption cannot both be right.)
2. Because of the long latency period of most human cancers, it is necessary to follow treated animals for their entire lifetimes (thus precluding all but short-lived rodents, such as mice and rats, regardless of how inappropriate this might be for extrapolation to humans).

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3. In order to catch "weak" carcinogens, it is necessary to treat animals to the highest doses that will not kill them early.
4. Almost every known human carcinogen causes cancer in animals. Therefore, it is reasonable to expect that compounds that cause cancer in animals are also potential human carcinogens.

According to the thinking of the time, the four NCI assumptions made sense, but only because it was also assumed that there is a *specific* and *unique* path to "causing cancer."

Chemicals that cause and protect from cancer

By the late 1960's, a number of experiments had begun that would show that the path to cancer need be neither specific nor unique. One of the first to be reported was conducted by the NCI, and it exposed groups of 15-20 mice to 120 selected pesticides and industrial compounds for their full life-spans. The report of the findings appeared in 1969 in the *Journal of the National Cancer Institute.*[1] Unexpectedly, a large number of the control animals were found to have tumors, and the number of tumors in each control group differed significantly.

The authors of the report struggled with this unexpected problem. They "solved" it with an elaborate set of statistical decision rules. The rules involved a complicated examination of convolutions of "statistically significant" findings and ended by categorizing the tested compounds into three groups.

One group was called "experimental compounds which resulted in an elevated tumor incidence," a second group "experimental compounds which did not cause a significant increase in tumors," and a third group "experimental compounds which require additional evaluation." There were 11 compounds in the first group, 89 in the second, and 20 in the third. Because of unexpected difficulties in interpretation, half the experimental data had to be ignored to reach these conclusions. Other, more standard statistical procedures, would have tagged all of the third group and almost half the 89 compounds in the second group as causing an increase in tumors.

As the NCI Carcinogenesis Bioassay Program developed subsequently, the elaborate statistical decision rules evolved for this study were ignored and never used again. A careful review of the 184 compounds tested in the Bioassay Program indicates that there are no

[1] J. R. M. Innes, et al, "Bioassay of Pesticides and Industrial Chemicals for Tumorigenicity in Mice: A Preliminary Note" *Journal of the National Cancer Institute,* 42: 1101-1114, 1969.

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clear-cut decision rules now in use and that the reasons given for declaring one compound carcinogenic are sometimes ignored when examining other compounds with similar patterns of tumorigenesis. The only rule that is consistent is that all treatment-related *decreases* in tumors are ignored.

There is one exception to this rule of ignoring the "cancer protecting" aspects of these studies. In March 1980, two biostatisticians from NCI published a technical paper in a statistics journal describing a method of data analysis.[2] As an example of how their method might work, they used the data from a Carcinogenesis Bioassay of an anti-diabetic drug. Their analysis shows that the drug caused a significant decrease in leukemia and lymphoma in both rats and mice. Examination of the three other anti-diabetic drugs that have been examined in the Carcinogenesis Bioassay Program reveals that all four cause a decrease in these types of cancer. Thus, while public pronouncements of government scientists carefully ignore the embarrassing fact that chemicals seems to both cause and protect from cancer in their bioassay, they are obviously aware of it.

Although there were strong hints in this 1969 study that something was wrong with both the method of testing and the previous interpretation of the data, the current abundance of evidence was not fully available in the late 1960's and early 1970's when much of the methodology was being put into place by government agencies. By 1973, the FDA required drug companies to conduct similar lifetime studies for certain classes of new drugs. However, government committees of experts held that 15 animals per group were too few to locate "weak carcinogens." And so it became the practice to use 50 animals per sex per dose. Furthermore, the new protocols called for detailed pathological examination of as many as 50 organs in each animal whereas only three organs had been examined in the 1969 study. In the early 1970's, such a study cost about $200,000. By 1979, with inflation and increasing demands for sophistication in the handling of animals and tissues, the cost to corporations and to the NCI had increased to about $500,000 per test.

Until these studies were begun, very little was known about the "normal" pathology of aged rats and mice. Standard rodent studies had never carried the animals past the robust period of their lives. In these shorter studies, almost all the control animals were without tumors or other serious lesions. On the other hand, animals treated

[2] Robert E. Tarone and John J. Gart, "On the Robustness of Combined Tests for Trends in Proportions" *Journal of the American Statistical Association,* March 1980.

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with a potent carcinogen (nitrosamines), for instance, were filled with liver tumors. In such an experimental set-up, the "cause" of the cancer appeared obvious.

However, when all the animals were studied until they were two years old or older, those in the control groups were also found to have many lesions, including tumors. Whole colonies of mice, both treated and control, developed cancer of the lymph glands (lymphomas) after eighteen months, confusing the ability to examine many small organs that were invaded by the lymphomas. This mass of "background noise" does not mean, however, that all effects of a chemical are hidden under the normal diseases of old age. In fact, high doses of most chemicals can clearly affect the patterns of old-age lesions. It *does* mean that the disease we call cancer was proving to be a complex mixture of symptoms in older animals.

The evidence mounts

Further complexities came to light. In one study of a proposed food additive, a group of animals was fed a diet of 20 percent sugar as an added control. This group showed a significant increase in liver tumors and a decrease in lymphomas, compared with the untreated control group. In the mid-1970's, several promising new cardiovascular drugs being developed by drug companies were pulled out of human experimentation because they induced dose-related increases in mammary tumors in female rats. The FDA overlooked that some of them also induced dose-related *decreases* in uterine tumors in female mice. As more and more of the studies were completed, similar patterns of increasing and decreasing tumors kept showing up.

In some cases, almost all the changes were in the direction of tumor increases. In other cases, almost all the changes were in the other direction. One of the more maligned food additives—largely for the "artificial" sound of its name—is butalated hydroxytoluene (BTA), which is used as an anti-oxidant in food packaging. Under pressure from consumer organizations, most major companies have eliminated it, replacing it with a less effective anti-oxidant or leaving out any anti-oxidant and shortening the shelf life of the product. Yet in the NCI Carcinogenesis Bioassay Program, BTA decreased the incidence of every type of tumor normally found in both rats and mice and increased the lifespan of the treated animals significantly above that of the controls. Sodium sulfite, an old standby among food preservatives, was shown in an important European

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study to do the same thing, albeit in a less dramatic manner than does BTA.

With such complex evidence mounting, many careful thinkers in the scientific community began to wonder what it all means. Dr. Gio Batta Gori, until recently Deputy Director of the Division of Cancer Cause and Prevention at the NCI, noted in an article in *Science* (April 1980) that animal studies cannot be trusted to provide answers to the question of whether a chemical will or will not cause cancer. He suggests that *all* forms of toxicity be taken into account in such tests and that no special importance be given to "carcinogenesis." He added that animal studies should be used as only one part of the entire set of data that would be used, not to find dangerous-versus-safe chemicals but to rank compounds in order of their potential to be dangerous to humans.

Another critic, Dr. Perry Gehring of Dow Chemical, noted in 1977 that high doses of chemicals probably overload the metabolic pathways of the animals and introduce biochemical events that would not normally occur. In what is one of the best examples of an intensive biochemical and pharmacological examination of a single compound, Gehring's laboratories have investigated the "carcinogenic" effects of chloroform (which "causes cancer" extensively in the liver of the mouse but has a minimal tumorigenic effect on the rat). They found that the mouse has a unique metabolic pathway for compounds like chloroform. And they showed that high doses of chloroform overload this pathway and lead to a build-up of toxic metabolites in the liver, causing the death of liver cells, and producing, in turn, a rapid proliferation of new cells to replace the old ones, which then leads to tumors. They then examined whether this biochemical sequence could also occur in rats and showed that it did so at a lower level. Finally, they looked at the human metabolism of chloroform and showed that it did not resemble the mouse pattern at all.

In response to experimental results, Gori and Gehring, as experienced scientists, are trying to modify the philosophical framework on which carcinogenecity testing rests. However, theirs are still minority voices in the cacaphony over "cancer causing" chemicals.

Daring to change our concept of cancer

At such a juncture in scientific research, exciting new thinking, new biological models, and new types of experimentation would usually emerge. Symposia would then be held to consider the new ideas

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and findings. But Federal scientific agencies such as the NCI and NIEHS, which should have been leading the way, have met the criticisms and proposals of Gori, Gehring, and others with a cold stony silence. There has been no attempt to invite the critics to present their views in open forum. Publications by members of the government groups carefully ignore the published criticisms and seldom, if ever, include them in their lists of pertinent references. And in public statements and testimony before Congressional committees, senior Federal scientists and inter-agency task forces continue to repeat their basic assumptions as if they were still unquestioned truth. One reason may be that the same individuals who ran the NCI's Carcinogenesis Bioassay Program have by and large transferred to the NIEHS, and there is no evidence that they are about to modify the mind-set which ruled their previous work.

A new scientific and philosophical framework is obviously needed. The concept of carcinogenesis proposed in 1954 is in need of modification, or at least refinement, to accommodate the inconsistent patterns of lesions produced by high doses of chemicals in aged rats and mice. What appears in the animal studies is not at all what was predicted by the biological model of IUAC in 1954. One proposal suggests carcinogenesis only be considered when it occurs at moderate doses in healthy, robust animals. Another proposal would consider carcinogenesis only when it is induced by chemicals acting directly on the hereditary mechanism of the living cell. Both proposals would avoid the confusion of "background noise" in testing as it is carried out today. However, these and other proposals have been ignored by the political and regulatory process.

By allowing its old "truths" to set into a rigid matrix, the regulatory authorities run the danger of being unable to adjust even when a new framework is defined. It has been shown that uncritical use of lifetime animal experiments will cause half or more of all tested compounds to be called carcinogenic. Any attempt to ban *all* of these from the human environment would be absurd. Already promising new drugs for the aged have been cut off in their development. Previously widely used herbicides and pesticides have been indicted, causing consternation in the agricultural industry. And local governments have been forced to install expensive filtering plants in water supply systems to prevent microscopic amounts of organic matter from reacting with chlorine and producing undetectable (but still "cancer causing" according to the NCI) amounts of chloroform.

Our only hope is that the bureaucracies of the government might have the courage and honesty to admit that they can be wrong in

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their fundamental assumptions. Progress in scientific knowledge has always depended upon the ability of scientists to realize when they have made mistakes. A good scientist knows that he will make mistakes because he is exploring the unknown. If government bureaucracies are going to explore the unknown, they also must be prepared to acknowledge their mistakes.

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Federal credit and the "shadow budget"

HERMAN B. LEONARD & ELISABETH H. RHYNE

If the public gets its way, the 1980's may one day be viewed as the decade in which "control" over the growth of federal government spending was established in the United States. Budget cutters have been given wide latitude in Washington, and red pencils are in great demand. But cutting the budget requires that there first be a budget to cut—that is, that the programs that should face the budget ax be accounted for in a way that allows appropriate scrutiny. The "shadow budget"—the financial commitments of the federal government that are not appropriately accounted for in the budget considered by Congress—has only recently begun to attract the public's attention. Federal assistance in the form of credit is one of the largest parts of that shadow budget, which also includes tax expenditures and the federal direction of resources through regulation. If the 1980's are to see the advent of real control over the public sector, our understanding of the shadow budget will have to improve very rapidly. It will be vital if we are to avoid the temptation to move programs cut from the "real" budget onto the shadow budget.

The attention recently focused on such high-visibility programs as the Chrysler loan guarantee and guarantees of New York City debt has made most people aware that the federal government has an important presence in credit markets. But few recognize the vast scale of this presence, the diversity of programs affecting credit, or

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the variety of instruments used. This lack of awareness is disturbing; even more disturbing is our lack of understanding of the impact of these programs. Given the number and size of the implicit and explicit subsidies involved, it is almost certain that these programs have a substantial impact on whether (and at what price) credit will be available for homes, businesses, farms, and other private sectors of the economy, and therefore play a vital role in determining where the economy is heading. Yet little conclusive research on these effects has been completed. And perhaps most disturbing is that the political accountability of these credit programs is weak enough to have allowed them to grow virtually unnoticed. The federal budget process has not only failed to provide scrutiny over these activities commensurate with their importance, it has also encouraged the perception of federal credit as an almost costless means of attaining public goals. The failure of the political process to measure the costs of some programs may well be the leading cause of the rapid expansion of credit-related programs.

There is a natural constituency for containing the size and scope of federal spending—taxpayers. Taxpayers measure the value of the services the government performs against their tax bills. They observe that resources are consumed (on the spending side) and that they must pay (on the taxing side) for that consumption. If taxpayers become convinced that they are not getting their money's worth they call for lower spending and taxes. Even when the government borrows to raise money for spending, the link between resources used and the source of payment is maintained; the public has come to realize that future taxpayers will confront the liability for the debt incurred.

The natural constituency for containing federal credit—as for other parts of the shadow budget—does not appear to recognize its stake. The costs are subtle, largely unaccounted for on budget documents, and thus easy to ignore. Only those who benefit from the loan are likely to be aware of even its magnitude—not to mention its costs—and they can hardly be expected to be effective watch dogs. The public must be informed of two things: the size and growth of federal credit, and the woeful inadequacy of our accounting system.

The four forms of federal credit

Lending under federal auspices takes several forms, which vary in degree of federal participation. If one were to base an under-

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standing of federal credit on newspaper accounts, the array of mechanisms might seem quite bewildering, but there are actually only four important forms: (1) direct loans, (2) loan guarantees, (3) lending by government-sponsored enterprises, and (4) tax exemptions for interest payments on certain bonds issued by state and local governments.

Direct loans are the most unambiguous form of federal involvement in credit. Government agencies lend funds drawn from the U.S. Treasury to borrowers they have selected, often at subsidized interest rates. An agency holds the borrowers' notes and provides all loan servicing. For example, the Rural Electrification Administration (REA) has been making direct loans to rural utilities since 1936 for capital improvements. At 2 to 5 percent interest and 35 year maturities, the REA has been offering a substantial subsidy in addition to providing services as a bank. In 1980, the REA issued $1.2 billion in new direct loans.

Direct loans may either be "on-budget" loans, which are reported in the federal budget considered by Congress, or "off-budget" loans, which are excluded by law from budget totals. REA loans, for instance, are not counted in the budget, while similar loans by the Small Business Administration are. Most off-budget direct loans are made through the Federal Financing Bank (FFB), an arm of the Treasury which extends loans at the request of other federal agencies.

Loan guarantees introduce a private lender as a third party in the credit transaction. Unlike direct loans, loan guarantees involve no immediate physical flow of federal funds. A loan guarantee is a government promise to repay the principal and interest of a private loan in the event of borrower default. The lender holds the borrower's note, but with a federal guarantee attached. A loan guarantee is a form of insurance that transfers all risk from the lender to the government, in effect transforming a private loan into a government security. For this reason, interest rates on guaranteed loans are generally near rates for comparable Treasury securities. Many agencies, such as the Export-Import Bank (Eximbank) make both direct loans and loan guarantees. Eximbank, which operates one of the largest loan guarantee programs, extended $5.2 billion in new guarantees in 1980. Eximbank guarantees repayment of loans U.S. and foreign banks make to foreign firms or governments to finance their purchase of U.S. products. These guarantees are an important part of U.S. trade policy. Competition with the trade subsidy programs of other countries often leads Eximbank to offer highly

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favorable guarantee terms. If present trends continue, it may lose up to $120 million next year.

Government-sponsored enterprises have somewhat less visible ties to the federal budget, but they do constitute federal support of the allocation of credit to particular uses and should be subject to Congressional oversight. There are seven government-sponsored enterprises, the oldest of which is the Federal National Mortgage Association (FNMA). The complex relationship between these privately-owned but federally-chartered institutions makes federal participation hard to assess. FNMA, the nation's largest secondary market purchaser of home mortgages, was chartered by Congress as a private entity in 1968 after existing for thirty years as part of a government agency. As a federally-chartered enterprise, FNMA has unique privileges—such as the authority to borrow up to $2.25 billion from the U.S. Treasury—and responsibilities—that it help assure adequate housing for low and moderate income families. Investors often regard FNMA securities as implicitly guaranteed; they appear to believe the government would step in if FNMA were on the verge of failure. Because of these ties to the government, FNMA securities are usually classified as government securities, and receive favorable treatment in the financial markets. It can be argued that the near monopoly of FNMA and the other government-sponsored enterprises has kept the private sector from developing its own institutions to perform similar market functions.

Tax exemptions on state and local government bonds are yet another form of federal intervention in credit markets. State and local governments use the tax exempt status of their bonds to promote industrial development, housing construction, and other activities. Because interest on these bonds is exempt from federal taxes, investors are willing to purchase them at substantially lower interest rates than comparable private securities. The forgone federal tax revenue represents an interest subsidy from the federal government, though one not fully recognized in federal government accounts. By designating certain private investments as part of industrial development, state and local governments can extend their own tax privileges to certain private activities, often without issuing their own bonds.

Taken together, these four forms of federal credit accounted for $105 billion in net lending during fiscal year 1980. Figure I describes the relative size of these activities and depicts their relationship to sources of funds and to forms of control or accountability. Direct federal spending is shown first. Direct spending is controlled through

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the annual budget and financed largely through taxes. In 1980 direct spending was almost one-tenth larger than tax revenues, and funds to cover this deficit had to be raised through borrowing by the Treasury.

Federal funds also had to be raised to cover the $24 billion in net direct loans the government made in 1980. Some of that lending took place under the federal budget, accounting for $9 billion of the budget deficit. The remaining $15 billion in direct loans were made outside the budget, creating Treasury borrowing needs not recognized in the official deficit.[1]

Guaranteed loans, another $25 billion, are not included in the budget but are potentially controllable through the new credit budget. The dotted line around the sources of loan guarantee borrowing denotes the difference between the immediate source of funds—private lenders—and the ultimate liability, which rests with the federal government. This liability is unacknowledged in federal accounts, though a portion of it may well be borne by future taxpayers. Lending by government-sponsored enterprises and net issues of private purpose tax exempt bonds added another $56 billion in 1980 to credit controlled in some form by the federal government. These two activities are separated from the rest to indicate that they do not (now or potentially) involve direct federal liability and are not administered by federal agencies.

A federal credit explosion

Ten years ago, Figure I would have looked quite different. In 1970 there were no off-budget loans and government sponsored enterprises were a much smaller portion of the total credit budget. Figure II shows the growth in federal credit from 1970 to 1980 in current dollars.[2] While on-budget direct loans have remained relatively stable, all other forms of credit have grown rapidly, with the fastest growth occurring in off-budget direct loans, beginning in 1974 with the creation of the Federal Financing Bank. Overall, new extensions of federal credit grew from $16.5 billion in 1971 to $80.8 billion in 1980, an annual compounded growth rate of 17.2 percent.

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[1] Direct loans are not necessarily financed through borrowing rather than through taxes—the Treasury does not earmark funds according to their source, and once funds have been raised and disbursed it is impossible to tell where they come from. For convenience, we treat taxes as devoted first to spending, leaving borrowing to cover the remaining spending as well as credit activities.

[2] Tax exempt bonds are omitted from Figures II and III, as data before 1976 are unavailable.

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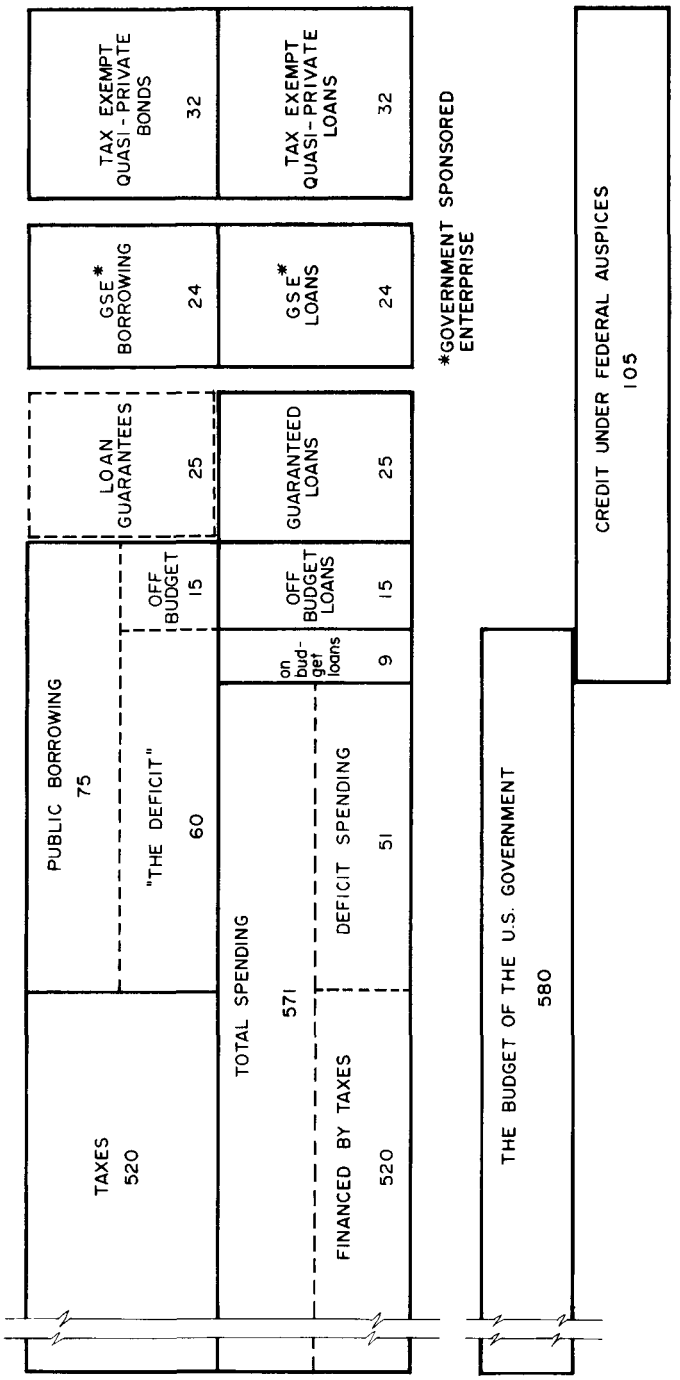
FIGURE I. *Sources and Uses of Federal Resources, 1980 (Billions of Dollars)*[1]



[1] Source: *Budget of the U.S. Government*, Fiscal Year 1982.

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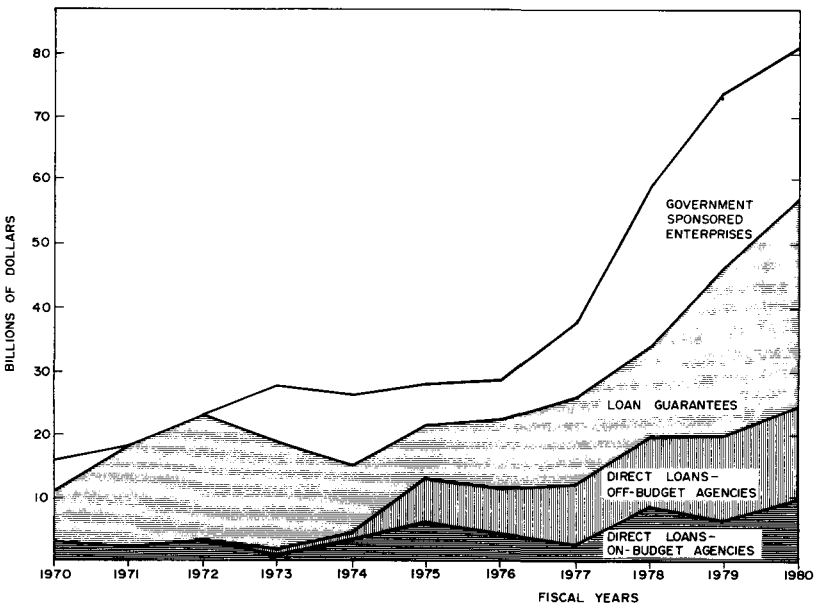
FIGURE II. *Federal Credit Activities, 1970-1980 (Billions of Current Dollars)*[1]



[1] Source: *Budget of the U.S. Government*, Fiscal Year 1982, Special Analysis F, Table F-1.

This increase is more understandable when placed in the context of growth in related measures of economic activity. Figure III shows indices of growth in federal credit and three other economic aggregates. (A straight line in this diagram would indicate a constant rate of growth.) GNP and federal outlays both grew at a relatively constant rate over the decade. Though credit—both federal and total—was more volatile than either gross national product or federal spending, all aggregates moved generally together throughout the first half of the 1970's. In 1976 the growth rate of federal credit turned upward, beginning an expansion that has taken credit under federal auspices from less than 11 to *over 23 percent of all domestic credit* (see Table I).

The extremely high federal share of all credit activities in 1980 can be partially explained by the general credit restrictions instituted by the Federal Reserve in March of that year. Those steps drastically reduced private credit—particularly consumer credit—while federal credit continued to grow apace. Barring such credit

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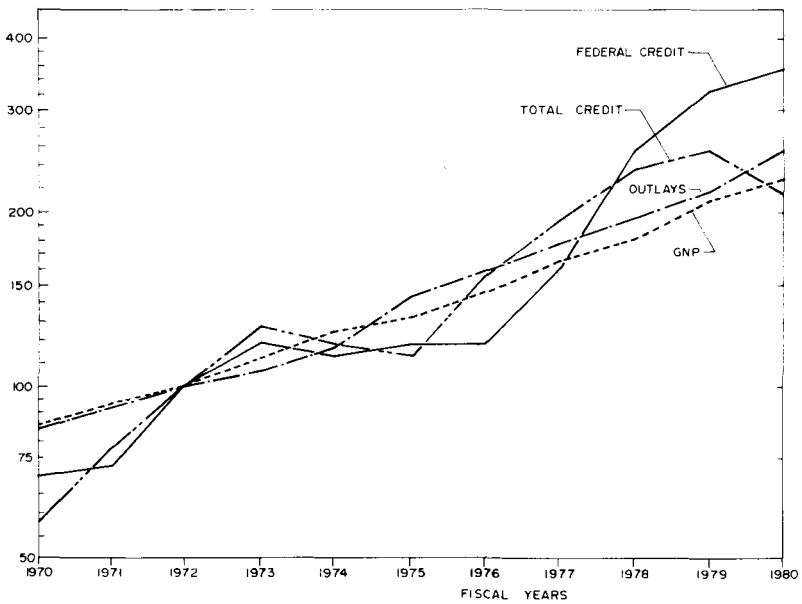
FIGURE III. *The Relative Growth of GNP, Federal Outlays, Total Credit, and Federal Credit, 1970-1980 (Indices in Ratio Scale, 1972 = 100)*[1]



[1] Sources: *Budget of the U.S. Government,* Fiscal Year 1982, Special Analysis F; *Economic Report of the President,* January 1981.

market disturbances, the federal share is likely to be below its 1980 level in the coming years (some current estimates put it near 20 percent). Even if yearly fluctuations are allowed for, federal sponsorship of close to one-fifth of all credit extended in the U.S. is a significant increase over mid-decade levels.

This upsurge in the federal share in credit markets is not matched

TABLE I. *The Relative Size of Federal Credit* [1]

	1970	1972	1974	1976	1978	1980
Federal credit as percent of total U.S. credit	17.2%	14.0%	13.3%	10.7%	15.3%	23.2%
Federal credit as percent of outlays plus credit	7.7	9.1	8.8	6.9	11.8	12.4
Outlays as percent of GNP	20.3	20.6	19.5	22.2	21.6	22.6

[1] Sources: *Budget of the United States Government,* Fiscal Year 1982, Special Analysis F; *Economic Report of the President,* 1981.

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by a similar upsurge in the share of federal activity in the economy generally. Outlays as a fraction of GNP are only 0.4 percentage points higher in 1980 than they were in 1976. This means that an increasing proportion of federal financing assistance is being given in the form of credit rather than direct spending. Federal lending as a proportion of all federal financial activity (outlays plus credit) has grown from less than 8 to more than 12 percent. The share of credit in federal activities has nearly doubled in only four years, meaning that *every eighth dollar of federal involvement in the economy now consists of some form of credit activity.*

Economic effects of federal credit

The message of the preceding description of the volume of federal credit is clear: Federal credit is a large and rapidly growing portion both of all credit and of all federal activity. Economists are able to predict in theory the sorts of economic benefits and costs entailed in intervening in credit markets, but the actual measurements of these effects are virtually impossible to obtain. We can suggest three ways in which these programs might alter economic activity: by making macroeconomic management more difficult, by changing the flow of resources between sectors of the economy, and by changing the composition of activity within an economic sector.

Though the effects of federal lending on the overall volume and composition of credit are probably not pronounced, its growth has almost certainly had one important indirect macroeconomic effect: It has lessened the effectiveness of traditional macroeconomic controls. As a growing fraction of the nation's credit transactions are funneled through the federal government as an intermediary, the ability of monetary policy to affect the total availability of credit in the economy is reduced. This is accentuated by the fact that the sector traditionally most sensitive to monetary policy, housing construction, has received increasing protection from interest rate fluctuations—*including* those stemming from monetary policies—by credit programs explicity designed to pump funds into the housing sector when it would otherwise have difficulty obtaining them.

A dramatic example of the insensitivity of federal credit programs to monetary policy occurred in 1980. In March, stringent credit controls were imposed on the *private* economy. The reaction was dramatic—private credit made available in the economy was 22 percent less in 1980 than in 1979 (see Figure I). Federal credit growth, by contrast, continued unchecked as funds advanced under

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federal auspices increased by 9 percent. Since federal credit does not appear to respond to monetary policy, and indeed is even designed to offset its effects on some sectors, the "responsive" portion of total credit is reduced as federal credit programs grow, and swings in monetary policies must be all the more dramatic to achieve their intended effects.

What empirical evidence there is suggests that federal credit programs are limited in their ability to reallocate credit towards the activities they are intended to support, and when they do succeed there are likely to be offsetting negative consequences elsewhere. For several reasons, a dollar of federal credit assistance will produce less than a dollar in increased funding for a federally selected use. Credit programs are often unable to target their assistance to border-line borrowers, and end up lending to credit-worthy borrowers who would have received a loan in any case. They may also substitute borrowers with federal approval for other nonfavored borrowers without changing the nature of the activity. Moreover, even if border-line borrowers are the recipients, the assistance can act as a general income supplement and may be put to uses other than those intended by the government. For many families, for example, student loans do not alter their children's educational plans, but substitute for financing through savings.

If a federal loan does reallocate credit to a new use, it may cause some other borrower to be denied credit at a price he can afford. This would be true if, as is generally thought, federal lending is unable to increase significantly the supply of funds in the economy as a whole or to particular credit market sectors. A few preliminary studies using empirical models have concluded, for example, that federal provision of housing credit, massive though it may be, has probably increased total credit for home mortgages by a relatively small percentage.

In view of all these factors, it appears that the major direct economic impact of federal credit is its provision of subsidies. Simply put, all federal credit works by changing the price at which credit is available. Except for the rare case such as Federal Housing Administration mortgage insurance—where the government has been able to correct for the market's inability to cope adequately with risk—the price is changed through implicit or explicit interest rate subsidies. Unfortunately, we have little information on the ultimate beneficiaries of those subsidies and can only say that most have been directed at housing and agriculture, with relatively few directed at business.

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Though it is impossible to measure accurately the aggregate impact of federal credit on the market for all credit, it is fairly clear that the credit programs do have a great effect on particular sectors of the economy. Simply because the government is part of the pipeline of funds from ultimate sources to ultimate uses for vast amounts of credit resources, it has become a party to a great number of vitally important credit decisions in our lives.

Consider the kind of influence the Federal Home Loan Mortgage Corporation, a government sponsored enterprise, is seeking. The FMLMC, downplaying its federal attachment by referring to itself simply as "The Mortgage Corporation," states in its 1979 Annual Report:

> As it plays an increasingly larger [sic] role in where America lives, the Mortgage Corporation looks to new choices—in ideas and challenges—to improve this country's housing for every citizen.

It has chosen to help determine "where America lives" by providing a secondary market in several forms of mortgages, including those for condominiums. The condominium is relatively new in the United States, and many legal authorities consider it a potentially risky legal arrangement. Given the uncertain legal future of condominiums and the current lack of political popularity of such arrangements in many central cities, the FHLMC might have decided *not* to provide loans for this form of homeownership, or it might have chosen to deal only in mortgages for new units and not for units converted from rental apartments. The Mortgage Corporation has used its (nominally minor) role as a conduit to establish a piece of federal housing policy with explicit political implications.

Accounting has been poor

Because of its size and rapid growth, because of its possible economic effects, and because of its involvement in so many other policy decisions, one would expect that federal credit policy would be a keenly debated part of the federal program. Yet control over federal credit programs in the executive and Congressional budget processes has been minimal, and many of the controls that have been adopted hide the magnitude and importance of credit activities. In all likelihood, the recent explosion of credit programs is due in no small measure to the failure of the budget process to measure their cost.

The basic problem with the government's reporting and controls of credit programs has been that accounting for lending has been

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forced into an ill-fitting framework devised for direct spending. Accounting for direct spending is relatively straightforward. When taxes are raised or money is borrowed to support direct spending, there is no need to distinguish between the flow of resources and the cost of the program. Spending can be essentially accounted for by a single measure of the flow of funds through the Treasury since gross and net flows are virtually identical. With credit programs, the problem is much more complicated. For one thing, gross and net flows are not equal, since some portion of loans are repaid and loan guarantees eventually expire. For another, while gross and net flows may describe the volume of activity, neither is a relevant measure of *cost,* since the cost or subsidy involved depends on the interest charged, the risk of default, and other aspects of loans not reflected in size alone.

A full and integrated accounting for credit programs would involve all three of these elements. It would treat the gross flow of resources—new loans or guarantees issued in the current year—as the most important measure of the scale of discretionary credit activities. It would examine and control the net flow of resources—loans or guarantees issued minus repayments and expirations—as the best measure of the change in the current status of federal finances. Finally, it would present some estimate of the cost of the program to the Treasury—the present value of the interest subsidy or the present value of expected defaults—as the best measure of the economic value of the federal assistance.

Unfortunately, when budgeting for credit programs was introduced, it was not as a wholly separate kind of budgetary accounting, but rather as a simple extension of direct spending controls. If some agencies disbursed their funds for direct purchases and others chose to disburse theirs as loans, why should the control or oversight process recognize the difference? In both cases the funds left the Treasury and were (at least temporarily) unavailable for other governmental uses. The budgetary control structure for credit programs centers on *net* rather than gross flows of funds, which makes the budget a record only of changes in the government's cash position. If some agencies managed to retrieve some of their funds after disbursement, why should they not be able to use them again in new loans? After all, these funds had already been appropriated for those uses, and if they could be used again, all the better. As we have seen, net flow is relevant as a measure for credit programs —it captures the net increases of credit involvement by the government. *But it completely ignores the actual volume of current loan*

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activity. To put it another way, the net flow depends on one factor that is at the discretion of the government (new loans issued) and on one that is only imperfectly under federal control (repayments of old loans). It is therefore unsatisfactory as the sole foundation for regulation of the lending programs.

The end result of the false analogy to accounting for direct spending programs is a budget which recorded only $8.8 billion in federal credit for 1980 when actual new credit extended by federal agencies was over $115 billion. (This does not even include lending by government sponsored enterprises or tax exemptions for state and local bonds, which are wholly outside the regular budget process.)

Guaranteed loans are the first omission from the budget. They amounted to $55.7 billion. As explained above, loan guarantees involve no federal funds—no checks written by the Treasury—except when defaults occur. They do, however, involve an assumption of contingent liability by the government which is just as real as the contingent liability involved in a direct loan. But because the immediate source of funds is private, the government does not acknowledge that liability in its budget. The second omission, the recording of direct loans as net rather than gross, allows agencies to reuse their appropriated funds without attracting the notice of any but the most relentless observers. This omission gets us another $27.7 toward $115 billion. Finally, many direct loans are made by off-budget agencies whose activities are excluded by law from the budget totals. These loans resemble their on-budget counterparts in every particular except their off-budget status. Off-budget loans, another $23.6 billion, bring the total to $115.8 billion.

When budgetary accounting is this weak, Congressional overseers have little incentive to maintain tight controls over commitments. Indeed, Congress has avoided strict controls over credit programs, leaving credit as the last true "back door" in the budget. Traditionally, the size of loan and guarantee programs has been legislated by limits on the total stock of credit allowed to be outstanding (or in some cases, such as student loans, by no limit at all). Most credit programs were not given annual review and most loan guarantees were not subject to the appropriations process. In the Congressional Budget Act of 1974, Congress placed strict controls on other forms of backdoor spending—federal obligations made without adequate budgetary controls—but explicitly left loan guarantees uncontrolled and failed to prohibit off-budget loans. Throughout the latter part of the 1970's, as the public and Congressional mood swung toward fiscal restraint, credit programs began to

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appear even more attractive. They will continue to appear so as long as success in fiscal restraint is measured by the size of the budget alone. Whether the motives were protection of a special interest or a search for ways to achieve public goals without having the government simply dispense money, Congress and the Administration have presided over the rapid growth of federal lending and the extension of its use into new areas.

Laundering federal credit

A mixture of just this sort of good intentions and desire to hide federal costs led to the development of the Federal Financing Bank, which was created in 1974 and is now the fastest growing component of federal lending. Through the FFB, billions of dollars in direct loans by budget agencies and billions of dollars in loan guarantee commitments are converted into direct federal loans not included in the federal budget. It is hard to believe that so simple a device as excluding certain activities from the budget total would have persuaded the public that the expenditures were not being made, but the FFB, for a time, seems to have succeeded in doing just that.

There has long been a tug of war within the government between those who wanted federal credit to be centrally managed and those who prefered to leave most of the choices to individual agencies. Since the abolition of the Reconstruction Finance Corporation in 1954, the forces of decentralization had been dominant. The FFB was a step back toward central controls, but it was taken in a way that was popular, even with agencies most resentful of executive intrusion, such as the Tennessee Valley Authority (TVA). The original function of the FFB was to consolidate all agency debt issued to the public. TVA, for example, financed its construction by issuing debt securities to the public. Because these issues were relatively small in volume and relatively unfamiliar to investors, they commanded a higher interest rate than Treasury issues. The FFB was designed to eliminate the premium charged by the market on small and unfamiliar federal agency debt issues relative to the rates received by the Treasury on its larger and more widely accepted issues.

The original conception of the FFB was reflected in its name—it was to act like a federal "bank," issuing its own fully-guaranteed debt on the private market and loaning the receipts to federal agencies. It would merely consolidate the issues of many agencies into a single FFB debt instrument, and henceforth the private

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market would only have to deal with familiar Treasury and (hopefully equally familiar) FFB issues. The FFB was permitted to issue up to $15 billion in debt, to be used as a revolving fund for federal agency debt. To insure that it could always meet its obligations, it was also permitted to borrow on a "short term" basis directly from the Treasury. This "liquidity" arrangement was not expected to involve large amounts of borrowing.

To the apparent surprise of some of the architects of this mechanism, it never quite worked the way in which it was designed. When the first $1.5 billion FFB issue (in July 1974) received an interest rate slightly higher than a Treasury issue of similar duration, the Board of the FFB decided that the easiest way to consolidate federal issues was *not* by convincing the private market that FFB issues and Treasury issues were effectively the same, but rather by having the FFB do its borrowing through the Treasury, under its short term authority. Thus, the public would be confronted only with Treasury debt.[3] Since then, it has borrowed *exclusively* from the Treasury.

The crucial by-product of this decision was that it effectively eliminated the $15 billion ceiling imposed by Congress on the capitalization of the Bank. FFB borrowing from the Treasury had not been limited. This simple device circumvented the only direct control Congress imposed on the scale of the Bank's operations, and opened the way to the rapid expansion of FFB activities. By the end of FY 1980, total outstanding obligations of the FFB amounted to over $68 billion, more than *four and one-half times* the amount originally contemplated by the Congress. This growth has occurred with no official authorization of Congress, because no such authorization was required.[4]

The major problems with the Bank arise not in its debt consolidation function, but in its use of its unlimited borrowing authority as an off-budget lending device. Some on-budget agencies are permitted to borrow from the FFB by "selling" pools of loans (loan assets) to it; these funds are available to the agency in addition to those funds directly appropriated by the Congress. Thus, the FFB is a mechanism for turning on-budget loans into off-budget lending.

An example may serve to make this bizarre arrangement more transparent. The Farmers Home Administration (FmHA) makes loans for farm mortgages to farmers, and these loans are recorded

[3] Agencies are still permitted to issue their own debt to the public, but they rarely do so since borrowing from the FFB is cheaper.

[4] *Budget of the U.S. Government*, Fiscal Year 1982, (U.S. Government Printing Office, Washington, D.C., 1980.) Appendix, Part IV, p. 10.

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in the budget as outlays. It immediately packages these loans into loan assets for sale to the FFB. When the FFB purchases the loan assets, FmHA counts the receipts as loan *repayments* and has no record of net lending in its budget. Meanwhile, the outlays are recorded outside the budget totals under the FFB, which has merely acted as a passive recipient of the certificates and funnel of the funds from the Treasury to the FmHA. The budgetary connection between the agency and its expenditures is effectively severed. The records for this set of transactions appear in an obscure form in the budget documents considered by Congress, but the borrowing does not show up as part of the "budget deficit" (see Figure I). *Through loan asset purchases in 1980, $7.6 billion in outlays were removed from the budget totals and deficit.*

The FFB also allows agencies to use their loan guarantee authority to make off-budget direct loans. Whenever a federal agency has fully guaranteed a loan, the FFB is authorized to become the direct lender, taking the place of a private lending institution as the direct source of funds. For these agencies, the FFB plays the role of the private lender, extending the loan directly to a borrower at one-eighth percent above the Treasury rate. Again, this is done to save interest costs, this time those paid by borrowers. From the standpoint of the economic and program impact of the original agency's activity, this FFB function is neutral. The federal liability is the same whether the note is held by the FFB or any other lender, and the same amount of funds are being channelled through the lending program. This FFB activity is problematic from the standpoint of budget accountability. Loan guarantee authority, which is not usually appropriated or reviewed as part of the annual budget process, is being used to spend federal funds, raising federal borrowing needs without raising budget totals. This activity amounted to $6.8 billion in 1980, about as much as was spent by the federal government on the entire Aid to Families with Dependent Children (AFDC) program.

How to build a credit budget

During the Carter administration some steps were taken to correct the inadequacies of the representation of loan and loan guarantee activity in the federal budget. The Office of Management and Budget developed a separate credit budget to record the full volume of credit controlled by federal agencies. The credit budget is intended to be the document through which credit is integrated

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more fully into the budget process, and restrained to the same extent that direct spending is restrained. The credit budget consists of estimates of annual new lending in the form of on- and off-budget direct loans and loan guarantees. The focus is on gross rather than net flows; the recording of credit in the spending budget is unchanged. Congress has now voted targets on total new loans and guarantees in its budget resolutions, based on the credit budget figures, and the Appropriations Committees have begun to place annual limitations on gross new lending by individual programs to accompany the credit budget estimates, thereby submitting many programs to annual control for the first time.

In its first year the new system did little to curb the growth of federal credit. The Carter credit budget for 1982 shows a 25 percent growth from 1980 to 1981. Presumably, the budget was not designed to achieve a 25 percent *increase* in credit activities. Like any other control mechanism, the credit budget reflects the will of those who administer it. Without the credit budget there can be no control, but the credit budget is not by itself a sufficient condition for restraint: Success depends on the extent to which the public and the Congress come to recognize its numbers as real resources for which Congress can be held accountable. The federal budget, and particularly the budget deficit, are closely watched and lamented over. It will take a great deal of public education to give credit budget totals the same sort of symbolic value. The Reagan administration has set out to conduct such a public education campaign by announcing a credit budget to cut credit programs by more than a third. If one reason that certain programs were funded through credit was that they were not popular enough to be given direct subsidies, they should turn out to be easy to reduce when budget cutters finally turn to them, easier than many better known programs. It is not clear whether the new strategy will succeed—Congress has already restored many of the proposed cuts.

The credit budget is a useful control mechanism in that it draws attention to credit programs. At a minimum, it has recognized the vital distinction between gross and net flows of credit resources, so that Congress can directly observe and limit actual lending rather than lending net of repayment. The credit budget has also confronted the ruse of off-budget activity by treating all contingent claims against Federal funds, from whatever source, equally. It goes without saying, however, that the FFB and off-budget problem will not be solved until those expenditures are no longer outside the spending budget totals.

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If real control over all forms of federal use of resources is to be established we need to develop a system of budgeting for credit programs which does not distort *any* of the three important aspects of their activity—gross volume, impact on federal funds, and ultimate cost. The spending and credit budgets take care of the first two, but there is still no adequate way of accounting for costs.

Costs should be measured both prospectively, as interest subsidies, and retrospectively, as losses from default. Because subsidies are the means by which credit programs reallocate credit, it is crucial that officials have some idea of the size of the subsidy when contemplating program changes. Yet this is rarely known. When seen in retrospect, the cost of credit programs is the loss from default and the excess of carrying costs over interest payment. These amounts are recorded in the program schedules in the federal budget, but recording is inconsistent across programs and understandable only to a small number of dedicated budgeteers. Defaults are rarely stated as a percentage of loan volume, interest costs are inadequately tied to interest payments, and losses associated with delinquency are almost indecipherable.

It is often argued that such costs are difficult to estimate. They are not, however, of a fundamentally different character than costs routinely estimated in the private sector by lending and insurance institutions. Indeed, one relatively easy way to get estimates of the cost of many federal credit activities would be to "procure" them from the private sector through a competitive bidding process. For example, "federal" loan guarantees for small loans could be purchased from private loan insurance agencies much the way the government currently procures nuts and bolts. This would provide a direct means of assessing the cost of the activity, since the service would have been purchased by the government rather than provided directly. Similarly, direct loans made by the government could be sold at auction to private sector financial institutions; subsidized loans would sell at a discount, and this would provide an estimate of the magnitude of the subsidy. While such methods may not work for all forms of federal credit, they would serve to show that "cost" information on federal credit programs are not inherently impossible to obtain.

This recounting of budgetary omissions does not even address the accountability questions raised by government sponsored enterprises and tax exempt bonds. For all practical purposes, application of federal influence through government sponsored enterprises lies outside effective federal policy oversight. Government sponsored en-

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terprises strongly proclaim their independence from federal policy control in their annual reports (except in the notes to their financial statements, where the federal presence looms large and unavoidable). Yet what private agency other than FNMA can boast that the Secretary of the Treasury is permitted to buy up to $2.25 *billion* of its debt should it encounter financial difficulties? This kind of involvement may be of concern to some federal officials and Congressmen, but this concern is well hidden because there is very little serious oversight of what policies are carried out under these auspices. Similarly, the legislation governing tax exemptions for industrial revenue bonds has been unchanged since 1968, except for an increase in the size of projects allowed. There are *no* limits on the total amount of credit that can be advanced under their auspices, and the guidelines for the purposes for which such credit can be used are imprecisely defined. For example, states are free to choose whether they wish to concentrate the assistance given through these loans in specific "revitalization areas" or distribute them more liberally within their borders.

While it is not obvious what form federal oversight of these activities should take, the public has a right to expect that when authority granted to the federal government is delegated to other organizations, it is transferred together with appropriate controls on its use and oversight of its effects. This calls *not* for a specific form or degree of oversight, but for an appropriate matching of the degree of federal involvement with the extent of federal scrutiny.

Largely because of the misleading and incomplete accounting of federal credit programs in budget documents, credit has long appeared a virtually costless form of government intervention in the economy in pursuit of social and other collective goals. The true costs have been extraordinarily high. Fiscal restraint in all quarters is the order of the day, but to be comprehensive—and meaningful—fiscal restraint must include restraint of credit activities in all forms as well as of direct spending programs.

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What to do when energy prices rise again

ROBERT E. HALL & ROBERT S. PINDYCK

With decontrol of oil prices and the proposed acceleration of natural gas decontrol, the Reagan Administration has reaffirmed the U.S. commitment to free markets for energy. No longer will federal policy try to shelter consumers from the costs of higher world energy prices. Even though energy prices are relatively stable today, another round of sharp oil price increases seems likely at some point in the next decade, and this time U.S. energy prices will be permitted to rise immediately as free markets dictate.

Our experience with the futility of energy price controls, especially with the consequent gasoline shortages of 1974 and 1979, and the natural gas shortages of the early and the mid-1970's, makes clear why a free-market policy for energy is an absolute necessity. Trying to depress energy prices below market levels brings the chaos of shortages and the longer-run costs of severe resource misallocation. Still, free-market policies will not eliminate the adverse effects of rising energy prices on the national economy. The fact is that energy price increases—particularly sharp and unexpected ones—reduce the level and growth of real national income, add to inflationary pressures, and raise unemployment. A free-market energy policy is no less desirable because of the destabilizing influence of energy

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shocks, so we must design our national economic policy to respond to energy shocks and minimize their impact. Monetary and fiscal responses to further episodes of rapid energy price increases need to be thought through in advance. The challenge we face for the coming decades is to accept and absorb the *necessary* costs of rising energy prices without incurring additional *unnecessary* costs. If we can meet this challenge, changes in the market for energy will not threaten our prosperity.

As the world's deposits of inexpensive oil and natural gas are depleted over the forthcoming decades, higher energy prices relative to the prices of other products are almost inevitable. Only the highly unlikely discovery and exploitation of deposits of a size completely outside the range of current expectations, or the equally unlikely development of an inexpensive technology not based on exhaustible resources, could reverse the trend toward dearer energy. But the experience of the past decade shows that the move toward higher relative prices of energy is not likely to take place smoothly. Periods of rapid price increases—energy shocks as in 1974 and 1979—will probably alternate with longer periods of stable or even declining relative prices. A reverse energy shock is even conceivable, where the relative price of energy falls sharply. Still, the reasonable forecast at this time is for a two- to four-fold increase in the relative price of energy over the next two decades, taking the form of discontinuous upward shocks, rather than a steady increase. What will happen to the U.S. economy in the long run as energy becomes much more expensive? What will happen in the short run after the next energy shock? What macroeconomic policies are the appropriate complement to the free-market energy policies the nation has already adopted?

Rising energy prices have two distinct effects on the economy, and it is important to understand how those effects work. First, a higher price of energy has a *direct* effect by reducing the total real national income available for domestic consumption and investment. When foreign energy producers receive more for their products in real terms, the real incomes of energy consumers must fall, and even the best economic policy cannot change this. Whenever a commodity that is consumed directly or used as an input to production becomes more costly to import or to produce, the potential income of the economy is necessarily reduced. It does not matter whether the cost of energy increases because it is imported and a cartel raises its monopoly price, or because domestic energy sources become more difficult to tap as a result of reserve depletion. In either case,

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the higher cost of energy will mean a lower real national income, which in turn means lower real wages, profits, and consumption levels. This reduction in real income occurs even if monetary and fiscal policies are used to keep the economy close to full-capacity output and employment.

Second, energy price increases that are rapid and unexpected also have an *adjustment* effect on the economy. In the aftermath of an energy price shock, inflation can be severe, unemployment high, and investment low. This adjustment effect cannot be eliminated entirely, but it can be significantly reduced through the proper use of economic policy. With the wrong policies, however, adjustment problems will be magnified, and may become a serious threat to economic growth and stability. It is this adjustment effect that led to the inflationary recessions in the United States (and many other industrial nations) following the 1974 and 1979 shocks.

Adjustment problems occur because our economy, like most industrial economies, is characterized by important rigidities in prices, in the use of inputs to production, and in wages. Prices of goods other than energy do not fall rapidly to reflect changes in relative scarcities, and inputs to production cannot be shifted quickly given new energy prices. Perhaps most important, real wage rates fail to fall quickly to the lower equilibrium level consistent with higher energy prices and reduced national income. Labor thereby prices itself out of the market, so to speak, and full employment becomes uneconomical.

Expensive energy means lower income

Inevitably, more expensive energy depresses the nation's command over goods and services. Even if higher energy prices had no effect at all on U.S. production of consumption and investment goods, costlier energy means that a larger fraction of production must be diverted to energy producers, domestic and foreign, and less to consumption and investment. In short, higher energy prices mean lower real national income. How large is the reduction?

The answer depends on the role and importance of energy in the economy, both in terms of its magnitude as a fraction of GNP, and the ability of consumers and industrial producers to conserve energy when it becomes more expensive. If the share of energy as a fraction of GNP were very small, then even a large increase in its price would have only a small effect on real income. Alternatively, if the demand for energy were highly "price-elastic" (that is, if it

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were easy for both household and industrial consumers to substitute other goods for energy if its price rose), the impact would again be small, even if energy's share were large at the outset.

The cost share of energy as a fraction of GNP is about 8 percent in the United States, and this sets an upper bound on the extent to which an increase in the price of energy will depress real national income. If there were no substitution possibilities (if energy demand were completely price-inelastic), a 10 percent rise in the price of energy would reduce real national income by about 0.9 percent. But the actual impact would be smaller because there is some scope for substitution of other goods for energy. Although the statistical evidence is mixed, a consensus is beginning to emerge in favor of an overall price elasticity of about –0.6. Thus, a 10 percent increase in the price of energy would lead to approximately a 0.6 percent reduction in U.S. real national income.[1]

The situation would be better if we could produce much of our own energy at a low cost, since low-cost producers stand to benefit from rises in energy prices. But in the United States, a growing share of our energy is produced at a cost close to or equal to the world price. In terms of direct economic impact, we are not much better off than importing nations like Japan or Germany, because the labor and other resources devoted to energy production deprive the economy of the use of goods and services exactly as would be the case if the energy were imported. For this reason, the production of expensive synthetic fuels in the United States cannot provide an economic buffer against the rising cost of energy.

What do our numbers imply for American economic growth over the next two decades? To take a particular scenario, suppose that the price of energy in real terms (relative to the prices of other goods) were to rise smoothly for the rest of the century at an annual rate of 5 percent. Oil would be selling for nearly $100 per barrel in today's dollars in the year 2000—a price where oil would begin to be replaced economically by non-conventional fuels. It turns out that this hypothetical 5 percent annual growth of energy prices would depress U.S. real national income growth by about 0.3 percent per year, relative to what would prevail with stable energy prices in real terms.

In the absence of rising energy prices, real national income in

[1] For a discussion of the characteristics of energy demand, and some estimates of energy demand elasticities for the United States and other countries, see Robert S. Pindyck, *The Structure of World Energy Demand* (Cambridge: MIT Press, 1979).

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the United States would grow at about 3 percent per year. From 1960 to 1973, average real income rose at a rate of about 3.8 percent per year, but a reduction to 3 percent is reasonable in view of diminished population growth and a likely slowdown in productivity growth for reasons other than energy prices. If energy prices rise at 5 percent per year relative to other goods and services, real income growth would be reduced to 2.7 percent per year. (Of course, this computation assumes a world free from surprises, whether relating to energy or other economic forces.)

Steadily rising energy prices would take away about a tenth of our total normal growth in real income. Such a development is unwelcome in an economy already suffering from lower rates of real income growth from other causes. Losses in real income brought about by expensive energy may add to social tensions, in view of the small total dividend from economic growth even under stable energy prices. And expensive domestic energy production can make little contribution to offsetting the real income loss of consumers when world energy prices rise.

Though the loss of income from costlier energy is significant in this scenario, it is certainly far from catastrophic. Real national income would still grow at about 2.7 percent per year. The most serious economic problems arise when energy prices increase sharply, rather than slowly and steadily.

Why price shocks are worse

The painful experience of the 1970's taught us that energy prices may rise in sharp unexpected jumps rather than along the smooth path which could be accommodated without serious dislocation. A sharp jump in energy prices reduces output and employment and pushes up the rate of inflation. Understanding the mechanisms through which energy shocks destabilize the economy is an important part of the preparation for likely repetitions of the shocks of 1974 and 1979.

The first event following a sharp rise in the price of energy is a burst of inflation. There is no fundamental economic law saying that prices in general must rise when the relative price of one commodity rises—prices of other commodities could just as well fall, and in fact should fall if there were no rigidities, and equilibrium could easily be restored. But the 1970's revealed that the United States and most other industrial countries have a bias toward sympathetic movements of prices in general when energy prices rise. Not only

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do other prices fail to fall when energy becomes relatively more expensive but they actually rise.

The response of prices in the United States and elsewhere after the 1974 shock amply demonstrates the perverse behavior of prices. Between 1973 and 1975, inflation would have increased by only 3 or 4 percentage points had the contribution of the energy shock been limited to direct increases in the costs of production and the prices of energy consumed directly, and had wages and other costs remained unaffected. But because of the sympathetic movements of wages and non-energy prices, inflation worsened by 5.1 percentage points in the U.S. and by even more in Canada, France, Britain, and Japan.[2] The reinforcement of energy price shocks by induced upward movements in other prices is one of the most serious obstacles to smooth economic adjustment.

At the heart of the problem is the failure of wages to decline in response to increases in energy prices. In countries where wage-setting is highly centralized and subject to government influence, the problem can be almost overwhelming—Britain is the leading example. But even in the United States, where the government's role in setting wages is minimal, wages do not respond quickly to equate the supply and demand for labor. After three decades of steady growth in the purchasing power of earnings, wages did not easily accommodate the reductions in purchasing power necessary after the energy price shocks of 1974 and 1979. Instead of falling to the point where the total cost of production (counting both energy and labor) was roughly constant, wages remained unaffected or even rose a little when the sharp increases in energy prices occurred. Consequently, prices had to rise.

The automatic linkage of wages to prices through cost-of-living escalators adds to the problem. Escalators were an understandable adaptation to the erratic monetary policies and high inflation rates of the late 1960's and an early 1970's, but during energy shocks they push wages in the wrong direction. The United States, like most advanced economies, had difficulty making the necessary adjustment to the lower real wage-rate necessitated by higher energy prices. There is some evidence of improvement in wage-setting both in the U.S. and Western Europe—the economic problems touched off by the 1979 shock seem to have been milder than those from the 1974 shock, even though the 1979 shock was at least half again as large

[2] For a discussion of some of the international differences in the effects of energy price shocks, see Robert E. Hall and Robert S. Pindyck, "Oil Shocks and Western Equilibrium," *Technology Review*, May 1981.

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as the earlier shock. In countries like the U.S., where employers are free to set up their own wage-setting arrangements, the perverse responses created by automatic cost-of-living escalation may induce greater institutional flexibility. Still, the problem of rigid wages is a long-standing one, and we may therefore expect inflationary dislocations in the wake of future energy shocks.

Soon after the burst of inflation set off by an energy shock, real output falls. The recessions of 1975 and 1980 followed soon after the rapid increases in oil prices. Further, these recessions were worldwide, which increased their severity in each country individually. The recessions induced by energy shocks involved declines of real output of 5 percent or more, far in excess of the direct reduction in real income we discussed earlier. When reckoned in terms of present discounted values, the total economic cost of the recession created by suddenly higher energy prices may have been as large or even larger than the cost of the higher energy prices themselves over the indefinite future, even though the recession itself lasted only a few years.

The real output level of a modern economy is vulnerable to an energy price shock for a number of reasons. First and foremost is the inability of the economy to come back to equilibrium quickly at a new and lower real-wage level. After a shock, employment falls and unemployment rises as firms lay off workers rather than employ them at uneconomic wages. This in turn brings a drop in real output. Sudden changes in input prices then create uncertainty about the profitability of private investment. Together with the high interest rates which accompany a suddenly higher price level, this uncertainty can bring about a slowdown in investment demand. Consumption demand will also fall (immediately and permanently) in response to the bad news about current and future real incomes. In the longer run, export demand from foreign energy producers should offset declines in domestic demand, but the experience of the 1970's showed that this process takes some time. In the interim, there may be several years of depressed output and higher unemployment.

Because of the strong interactions between the U.S. and other major economies, the recessionary impact of an energy shock within any single economy is substantially larger than a purely domestic shock of the same magnitude. The business cycles of the major energy consuming nations were out of synchrony before the 1970's, but in the period 1973-75 and again in 1980 all of their economies went into recession in a strikingly uniform way. These inter-

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actions between countries exacerbate the adjustment effect of an energy shock.

Coping in the short run

In the long run, economic policy can do little to reverse the decline in resources available for investment and consumption following energy price increases. The one policy move offering some hope of raising real incomes in the longer run—reduction in current excessive taxation of the earnings of capital investments—is something that needs to be done quite apart from energy considerations. For the longer run, the major policy instruments, monetary and fiscal, should be directed toward broad goals not specifically related to energy. Monetary policy should be geared to stabilizing the price level; there is no reason to let higher energy prices or other events divert monetary policy from this goal. On the fiscal side, taxing and spending policies should provide the desired level of government services and income maintenance without imposing excessive distortions. Higher energy prices have only one role in the process in the longer run—they reduce total resources available for all purposes and must necessarily reduce the appropriate levels of government programs as well.

The role of economic policy during and immediately after an energy shock is more complex. The combination of higher inflation, higher unemployment, and lower real output strains conventional ideas about policy in the short run. The inflation seems to call for increased monetary stringency. Though the only effective tool of economic policy for controlling inflation in the longer run is stabilization of the money supply, monetary contraction is largely ineffective against inflation in the short run. Instead, a strenuous monetary response to an energy shock brings a worsened recession. In 1974 and 1975, reductions in money growth were responsible in part for the severity of the recession of those years. By contrast, the country with the most favorable experience with inflation following the 1974 shock, Germany, did not reduce—or increase—its rate of money growth; it simply maintained a policy of moderate money growth.

Monetary policy should not be used to try to offset the inflationary effect of an energy shock. Rather, money growth should be guided by the general principle of providing the economy with the quantity of money that is non-inflationary in the long run. In the short run, monetary policy should simply provide a stable monetary environment for private economic decisions—it cannot and should

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not try to stabilize prices from year to year, but instead from decade to decade.

Fiscal policy faces a dilemma in the aftermath of an energy shock. On the one hand, there is pressure to lower tax rates on consumers to make up for the loss in real income brought about by higher energy prices. But even without cuts in tax rates, government revenues decline in real terms because higher prices for imported energy, combined with diminished levels of economic activity, will reduce the real tax base. On top of this may come pressure for higher levels of government spending to stimulate demand.

Higher government deficits over a number of years are likely to follow an energy shock and do not by themselves present any serious economic problems. However, it is important that fiscal policy makers recognize that higher energy prices inevitably bring a decline in real national income. It is simply impossible to maintain real growth in government expenditures *and* cut taxes enough to maintain real growth in consumption when the total resources available for domestic purposes have been reduced by higher energy prices. Although budget deficits are sensible during the recession that follows an energy shock, the growth of revenues must be large enough to eventually finance the growth of expenditures. If the government chooses to keep expenditures in real terms at their pre-shock levels, then tax *increases,* not decreases, will be needed sooner or later. With constant tax rates, government expenditures must share in the decrease in real national income. Accordingly, any increase in expenditures and reductions in taxes following an energy price shock should be small and temporary.

There is more to short-run fiscal policy than the resource allocation issues just examined. Well-designed temporary tax policies can moderate the recessionary effect of an energy shock.

First, special temporary incentives should be used to stimulate investment in the aftermath of a shock. As we explained earlier, sharp increases in energy prices depress investment demand, and this in turn can retard potential GNP growth for years to come. Investment credits, accelerated depreciation, and their equivalents are good ways to stimulate demand in the short run. Pro-investment policies also have the virtue of helping to offset inflation by adding to productive capacity and thus increasing aggregate supply.

Second, tax policies can reduce business costs and so lower prices and raise output. Cost-reducing policies provide a way for the government to introduce the flexibility that modern economies seem to lack in the short run. Reductions in payroll and excise taxes are

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leading candidates. Their effectiveness has been demonstrated in reverse by the recent British experience of *raising* indirect taxes. A good part of Britain's high inflation since 1979 is the result of this mistaken policy. Reversing the British policy is an attractive move after an energy shock, but effective options for cost reductions are limited in scope. Cuts in the payroll tax would require modifications of existing fiscal institutions, because the tax is now earmarked for the specific purpose of financing Social Security benefits.

How to make things worse

Though the Carter and Reagan administrations have moved us closer to a free-market energy policy, there remains the danger of a resumption of federal intrusion in energy markets at some time in the future. The experience of the 1970's taught us an important lesson—when the government keeps fuel prices below market-clearing levels, shortages inevitably follow. Further, once shortages occur, the government is forced into the business of allocating scarce supplies because price controls block normal market mechanisms. Federal price controls for gasoline and accompanying blundering attempts to allocate gasoline in 1974 and 1979 had social costs far in excess of the limited relief they provided to gasoline purchasers. Experience around the world has amply demonstrated that the only successful way to avoid fuel shortages is to rely on free market pricing and allocation.

Except in the event of a major war, the United States can rely on the continuous availability of crude oil in the international market. World shortages of crude oil are not a threat. As long as oil is being produced, anyone can—by offering a high enough price—import as much as desired, so the world market will equalize supply and demand. Federal energy policy should therefore not focus on alleviating shortages or closing gaps. The U.S. will see energy shocks in the future, as it has seen two shocks already, as a sudden sharp increase in the world price of oil. Even the conscious attempt of the Arab oil producers to boycott the U.S. in 1973 and 1974 was a complete failure in hurting the U.S. differentially—the whole world suffered equally from the higher prices it brought.

Should the United States continue to accumulate a strategic oil reserve? This depends on whether the benefits outweigh the costs. A strategic reserve has two functions. First, in the event of a war that disrupts most shipping and trading of oil, the reserve could be released into the North American market to moderate the price in-

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crease in that market, which would be forced to function independently from other oil markets. Second, even if the world market continued to function, the reserve could be used to moderate world price increases in the wake of an OPEC production cutback.

A U.S. strategic reserve makes the most sense if it is part of an international multilateral agreement. When a stockpile is released, no matter where it happens to reside, it adds to the supply of oil in the world market (barring a major war) and thereby lowers the world price. As a result, the benefits are enjoyed by all importing countries, even if they do not have stockpiles of their own, but the benefits to the country holding the stockpile are likewise reduced. If the U.S. alone released a stockpile in the wake of a crisis, the impact on world oil prices—and prices faced by American consumers—would be small, even though U.S. oil imports would fall substantially. But if most major oil consuming nations maintained and released large stockpiles, sharp price increase could be moderated significantly and the resulting economic damage ameliorated. The likelihood of obtaining such an international agreement is extremely low. At the same time, the costs of building and operating the storage facilities have proven to be much higher than previously estimated. Consequently, the U.S. should proceed cautiously in accumulating strategic reserves unilaterally.

Another element of federal energy policy under discussion today is the taxation of energy. A simple tariff on imported oil would raise the domestic prices of all forms of energy, stimulating supply and discouraging consumption. By reducing dependence on energy, the tariff would reduce U.S. vulnerability to future energy shocks. Further, reduced U.S. oil imports might lower the world oil price somewhat. The benefits on both accounts must be set against the costs: Tax-induced rises in energy costs have all the same inflationary and recessionary effects as those from OPEC, and the costs to U.S. consumers of higher energy producers exceed the proceeds of the tariff. If an oil tariff is imposed, it should be done gradually, with substantial advance warning.

It should hardly be necessary to add that the government should stay completely out of energy production. Nothing but waste and inefficiency can come from federal involvement in synthetic fuels, breeder reactors, and other technologies that cannot make their way in free markets.

Energy prices are likely to continue to rise relative to other prices, possibly in sharp and unexpected bursts as in 1974 and 1979. More expensive energy imposes significant costs on the American econ-

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omy—lower real income in the longer run, higher inflation and unemployment in the shorter run. But the costs should be manageable, even if energy prices triple in real terms over the next two decades. The challenge will be to adopt the economic policies that most successfully limit the costs and to block the energy policies that threaten to raise the costs.

Under the policy mix we favor—mildly activist tax policy and free-market energy policy—energy price increases would still impose costs on the U.S. economy, especially if those increases were sharp. But those costs are largely unavoidable, and they would only be exacerbated if we tried to meet them with the mistaken, deeply interventionist policies of the past decade.

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Julian Simon's Cracked Crystal Ball

KATHERINE GILLMAN

Most people who look at the prospects for the planet Earth in the next few decades find the outlook pretty sobering. They see mounting problems—persistent human poverty, rapid population growth, ever-increasing human demands, severe stresses on the earth's resources and environment—and no easy answers. They believe the world has no time to lose in facing up to the problems and working for solutions.

An exception is Julian L. Simon, an economics professor at the University of Illinois and recent contributor to *The Public Interest* ("Global Confusion, 1980: A Hard Look at the Global 2000 Report," Winter 1981). Simon is a professional Pollyanna. Where others look into the future and see the potential for hard times, Simon sees human progress rolling ahead without a hitch. Where others warn of the dangers of deteriorating world resources and growing human needs, Simon offers reassurances that the trends are all positive—that everything will work out for the best.

Simon's rise to national attention in recent months has been meteoric. His style is readable, self-assured, and—to someone not familiar with the issues—possibly quite persuasive. Unfortunately, he offers little genuine insight into the global resource, environmental, and population problems that trouble so many informed observers. His understanding of this complex web of issues is thin and the "facts" he uses to support his argument are mostly ill-chosen, misinterpreted, and downright misleading. All this is particularly true of his attack on the Global 2000 Report.

Issued in the summer of 1980 by the Council on Environmental Quality (CEQ) and the Department of State (eleven other federal agencies helped to prepare it), the Global 2000 Report has stirred an unusually attentive public response here and abroad. Professor Simon thinks the attention is misplaced. He says that "it does the troubled people of the world [no] good to say falsely that things are getting worse though they are really getting better." Human beings, Simon says, "use their imaginative and creative powers to change their situation when caught in a resource bind, and the final result is usually that we are left better off than before the problem arose."

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Those of us associated with the Global 2000 Report welcome genuine news that things are getting better, and of course we believe that human ingenuity can help to extricate mankind from resource binds. Indeed, it had better. The Global 2000 Report does not, as Simon claims, "make it official that the world is going to hell in a hand basket." Rather, it points to current trends that *could* result in a progressive erosion of the earth's carrying capacity if we do nothing to change the trends. Curiously, in quoting the two opening paragraphs of Global 2000 as the "report's own thumbnail summary," Simon omitted this key point. In the Report, the concluding sentence of these paragraphs said:

> Barring revolutionary advances in technology, life for most people on earth [in 2000] will be more precarious than it is now—unless the nations of the world act decisively to alter current trends.

Simon inserts a period and closes the quotation after "now."

Simon thinks the Global 2000 Report should have reached a different conclusion, namely: "More or less, and left to themselves without massive government interference, the world's people are slowly but steadily improving their lot in food and resource supplies, life expectancy, and a clean environment." In other words, these matters will take care of themselves.

But both the analytic method and the data Simon uses to support this belief are seriously flawed. Simon's vision of the future is based quite simply and directly on the past. Ruling out causal analysis, he extrapolates historical trend data in a straight line—as though the passage of time itself causes change. Global 2000 takes the far more sophisticated approach of building up projections from component parts, reflecting analysis of causes and consequences in the real world. In any case, the data Simon has collected to prove his case are unpersuasive. Again and again, he cites recent U.S. experience as evidence that global environment and resource trends are positive. But the record of a rich nation, with an abundance of natural resources and a strong commitment to environmental protection, hardly typifies conditions in the world as a whole.

Simon's treatment of data is careless. In the case of pollution, he provides figures for two of the five major air pollutants—the only two, as it happens, for which emission trends are declining—and titles these data "Air Pollution in the United States, 1970-1974." For both air and water quality, he chooses older, fragmentary U.S. data which show distinctly improving trends, rather than the current more complete data which are more ambiguous. Arguing that global food production per capita is inexorably rising, he makes an elementary error in statistical technique that leads to an overstatment by at least one-third of projected food production per capita in 2000—even in terms of the straight line projections Simon favors.

Finally, Simon's basic outlook, or *"thema,"* as he calls it, is blind to ecological insights. He believes that the resources which support human life and welfare are not fixed but expandable. In principle, he

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says, the resources that human ingenuity can make available for human needs are limitless. Ecologists and other physical scientists do not believe that resources are finite—"like your July paycheck's size," as Simon puts it. They see the biological systems that provide resources for human needs—crop and grazing lands, forests and fisheries—as dynamic. Carefully managed, renewable resource systems can produce more food, fiber, or fuel than they would in a natural state, and they can do so for a very long time. But if they are poorly managed or overstressed, they can collapse and become far less productive or even barren.

The *thema* underlying Simon's thought is that human ingenuity will always and inevitably triumph over nature. The ecological *thema*—one borne out by centuries of human experience and still being proven today—is that human beings must contrive to live in harmony with natural systems.

DYNAMISM in renewable resource systems works in both directions. Human beings throughout history have devised many ingenious ways to meet the needs of growing numbers of people. Settled agriculture, for example, can feed far more people than can hunting and gathering cultures or slash-and-burn shifting cultivation. With good management, good soils, and favorable climate, agricultural systems can be highly productive for centuries.

But other renewable resource systems, not so favorably endowed or well managed, show a different kind of dynamism—a descending spiral of excessive demands on the system, degradation of the resource base, and diminishing productivity. For example, salinization and waterlogging of irrigated lands played a major part in the decline of the ancient Sumerian civilization; the soil ruined by 2000 years of Sumerian irrigation has not recovered to this day.

Modern instances of serious deterioration of resource systems are, unfortunately, not hard to find. These problems are most immediate, severe, and tragic in some of the world's poorest countries. For example, in Sahelian Africa south of the Sahara, a vicious cycle of poverty, accelerating population growth, and excessive demands on the environment is leading to expansion of the desert. Here and in many other places—in South Asia, the Andean region, Central America, islands such as Haiti or the Malagasy Republic—efforts by growing numbers of people to meet their basic needs are damaging the very cropland, pasture, forests, and water supplies on which they must depend for their livelihood.

Restoration of the earth's resource base is possible—but it requires money, time, and an easing of existing pressures on the land. Resource systems ruined by poor management and excessive human demands may remain unproductive for thousands of years. Glistening, sterile crusts of salt still cover the former "Fertile Crescent" of ancient Sumer. The barren, eroded state of the once-forested mountains of southern Italy and Greece is another example of damage that has proven to be, in practical terms, permanent. Destruction

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of the old Mediterranean forest began at least 400 years before the Christian era. Plato described the mountains of Attica "which were not so long ago clothed with fine trees, producing timbers suitable for roofing the largest buildings" and provided "bountiful pastures for cattle." By Plato's day the rainfall on these mountains was no longer stored but lost, flowing over "a denuded surface to the sea." And so it is today.

To Professor Simon, such losses are insignificant in the context of mankind's ability to overcome natural resource constraints—in the long run. But even supposing one agreed with this view, the question would still arise: How long a run? The Global 2000 Report looks principally at the next 20 years (although it also expresses concern about problems which, if unattended, may have their worst effects in the 21st century and beyond). Simon's definition of long-term, in his 1977 book, *The Economics of Population Growth*, is 30 to 200 years, or more. Positive trends that assert themselves over such a time span are cold comfort to people alive today. Revolutionary changes in technology generally require a number of years —even decades—for widespread adoption and distribution of benefits.

Whatever the long-run possibilities of technology may be, the world in the meantime still faces urgent questions such as how to meet the needs of growing numbers of people, many of them desperately poor, while protecting and restoring biological life support systems.

Let us now get down to specifics on the "facts" as presented by Professor Simon.

POLLUTION. Comprehensive world data on air and water pollution do not exist. The Global 2000 projection that the world will be more polluted in 2000 was based on projected increases in major sources of pollution: the production and burning of fossil fuels; the nuclear power fuel cycle; the use of hazardous chemicals (including a four to six-fold rise in pesticide use in developing countries). While industrialized countries are making progress in controlling air and water pollution, success is far from complete. Controls over pollution have barely begun in most developing countries.

Since world trend data for pollution were not available, Professor Simon simply used a few data on U.S. air pollution from CEQ's 1976 Annual Report. Changing the title from "Overall National Trends in Daily Observed Levels of Sulfur Dioxide and Total Suspended Particulates" to "Air Pollution in the United States, 1970-74," Simon presented data showing a four-year decline in these two pollutants.

There is no question that our national efforts to control air pollution have improved matters, but more complete and current data, as shown in CEQ's 1980 Annual Report, reveal a more complex story. Emissions of the two pollutants shown by Simon (sulfur dioxide and particulates) have continued to drop. Two others—carbon mon-

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oxide and volatile organic compounds—stayed about the same from 1970 to 1978 (which is still progress, since there were more people, more industry, and more cars on the road in 1978 than in 1970). Emissions of nitrogen dioxide, which has been subject to less legal control than any other pollutant, have risen.

It is important to note that the Global 2000 findings on global air pollution encompass more than the five air pollutants of local or regional distribution discussed above. They also consider the potential for worsening problems of acid rain caused by increased burning of coal, further depletion of stratospheric ozone due to human activities (especially releases of chlorofluorocarbons used as refrigerants and in aerosol sprays), and rising atmospheric levels of carbon dioxide. The carbon dioxide content of the world's atmosphere has increased about 15 percent in the last century; by 2000 it is expected to be nearly a third higher than preindustrial levels. Rising levels of carbon dioxide tend to warm the earth and alter the global climate, possibly in ways highly adverse to world agriculture, fisheries, and coastal communities.

For data on water quality, Simon goes back to CEQ's 1975 Annual Report, bypassing the far more complete and reliable data contained in later annual reports. The 1975 figures did show improving trends in both drinking water quality and the quality of water as a habitat for aquatic life—although, as CEQ pointed out at the time, not all pollutants were measured; trace organic chemicals, for example, were not monitored.

More important, the 1975 figures did *not* represent "U.S. water quality," as Simon states. The data came from 87 monitoring stations in the U.S. Geological Survey network—the only ones in the country for which data over several years existed at that time. In its 1976 Annual Report—the next after the one cited by Simon—and in every year thereafter, CEQ has reported on the quality of surface water at or near the mouths of *all* major U.S. rivers and their tributaries. This reporting network includes 349 U.S. Geological Survey Stations.

After a careful consideration of several key indicators of water quality in all the major U.S. river basins, CEQ concluded in its last two annual reports that the nation is just about holding its own in terms of surface water quality. Nationwide data for ground water are too scanty to permit general conclusions, but there is disturbing evidence of increasing contamination of ground water by toxic organic chemicals.

That surface waters are no longer deteriorating, despite increases in population and industrial activity, is a considerable achievement. Factories, many municipal treatment facilities, and other point sources are gradually coming under control. (Street and farm runoff and other nonpoint sources, also serious polluters, are much harder to control.) Success stories in the United States and in other developed countries are common. Simon chooses London's River Thames and the Great Lakes as examples (veering off, in the latter

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case, to imply that Paul Ehrlich's premature announcement of the death of Lake Erie can somehow be imputed to Global 2000).

We can indeed rejoice in the fact that pollution is clearing up in Lake Erie, and that Lake Michigan is an "angler's paradise." But we must also bear in mind that the reduced pollution in the Great Lakes and elsewhere reflects more than a decade of strict government regulation and arduous efforts by communities and industries to clean up polluting discharges; that the Lake Michigan fishery is artificially maintained at considerable expense by continually stocking sport fish and removing parasitical sea lamprey, which were introduced into the Great Lakes with the building of the Welland Canal in the 19th century; and that levels of PCB's have not declined in Great Lakes fish eight or nine years after the use of these persistent toxic organic chemicals was generally banned.

Because of the still-existing pollution, sport fishermen in this "angler's paradise" are warned by the Michigan Department of Public Health not to eat the salmon, steelhead, or lake trout they catch in the lake any more often than once a week. Children, nursing or pregnant women, and even women expecting to bear children are advised not to eat any at all.

It is hard to understand how the improving but still mixed record of a rich nation, with strong federal, state, and local laws and a national commitment to environmental protection, could be used by Simon in support of his statement: "More or less, and left to themselves without massive government interference, the world's people are slowly but steadily improving their lot in food and resource supplies, life expectancy, and a clean environment."

FOOD. Here, to do Professor Simon justice, he uses appropriate world data and raises some points on which there is a divergence of opinion among knowledgeable people. Yet here too—and even on his own terms—Simon's interpretation of the data is seriously misleading.

Simon's bias toward straight-line extrapolation of past trends accounts for some of the difference between his expectations of world food production in 2000 and those of Global 2000. The Global 2000 Report projected a per capita increase of 14.5 percent in world food production from 1970 to 2000. On the basis of figures from the United Nations and the U.S. Department of Agriculture, Simon says that food production rose either 28 percent or 37 percent per capita from 1950 to 1977, depending on which set of data is used. "Why," he asks, "should [Global 2000] project a much smaller rate of increase (15 percent) for an even longer period?"

Even using Simon's own assumption that the future will mirror the past, it is statistically incorrect to conclude, as Simon does, that per capita food production should rise more than 28 percent (or 37 percent) between 1970 and 2000. Simon simply took the last figure in the series (1977) and noted that it was 28 percent higher than the first (1950). The accepted method of extending trends in a straight

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line is to take *all* the figures in a series and draw a "line of regression" through the dots on the chart, so as to smooth out year to year variations due to such factors as variable weather. By this method, the extrapolated growth in per-capita food production for 1970-2000 would be about 21 percent. A little further analysis of this kind suggests that the rate of increase in world per capita food production is declining. A trend line based on the years 1950-1960 points to growth of nearly 30 percent in the 1970-2000 period. But a trend line based on the 1967-77 figures indicates growth of less than 18 percent for 1970-2000.

The Global 2000 method of projecting food production is different. Rather than simply extrapolating a trend based on the past, the study's projections were built up from many component parts including expected increases in yield (output per unit of land) and in arable land. For world crop yields, Global 2000 projected continued annual increases at the record-breaking rates of the 1950's and 1960's. This projected growth in yields is perhaps overly optimistic, for it rests on questionable assumptions: much wider adoption of yield-enhancing technology (such as irrigation and use of high-yielding plant varieties) and a nearly three-fold increase in commercial fertilizer and pesticide use by 2000 (four-fold in less developed countries).

For world arable land, Global 2000 projected a very modest net increase of 4 percent from 1971-1975 through 2000. "But why should this be so," asks Simon, "given that arable land increased fully 16 percent in the 20 years from 1950 to 1970?" There are several answers to this question. First, more recent data than those used by Simon show a sharply declining rate of bringing land into cultivation. The UNFAO (Food and Agriculture Organization) reports an increase of 3.5 percent in world arable land in the ten years from 1968 to 1978. Then there is good reason to believe that the rate of additions to arable land may slow further, while the rate of loss rises—assuming, that is, that present policies and practices continue.

Although there are still large uncultivated areas in the world (such as the vast savannahs of Brazil), the suitability of much of this land for sustained use as crop or rangeland is still undetermined. Most important, a great deal of the unused land is far from people and from the network of public facilities and private businesses needed to support agriculture. Besides suitable lands, an effective agricultural system also requires experienced farmers, roads to market, seed and supply merchants, and so on—not to mention the indispensable ingredients of water and capital.

Net increases of arable lands, taking into account losses as well as gains, must be considered. The Global 2000 Report emphasized the seriousness of present losses of agricultural lands and degradation of soils. According to estimates made for the United Nations, an area of productive crop and grasslands equal to the size of Maine (about six millions hectares) is succumbing to desert-like conditions

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every year. As increasing numbers of people in the world's drier regions put more pressure on the land to meet their needs, the pace of desertification may well rise. Rich countries are by no means immune to degradation and loss of farmlands. For example, nearly 10 percent (160,000 hectares) of the irrigated farmlands of California's San Joaquin Valley are threatened by high, brackish water tables. Erosion (especially in areas of tropical deforestation) and urban development are also claiming farmland worldwide.

Overall, the Report projected that world food production would continue to rise through the end of the century at a faster rate than population growth, but would level off nonetheless. The latest figures from the UNFAO are consistent with the Global 2000 projections. They show continued increases in world food and grain production, but declining *rates* of increase in the 1970's. For all food and agricultural production, the rate of increase was 2.6 percent in the 1960's and 2.5 percent in the 1970's; for cereal production, it was 3.1 percent and 2.7 percent, respectively.

FORESTS. The Global 2000 Report projected significant losses of world forests over the next twenty years, mostly in tropical forests in less developed countries. Some 40 percent of the remaining forest cover in less developed countries could be gone by 2000, the Report said. Professor Simon uses U.S. data to counter this projection—but the United States is hardly a less developed country and has virtually no tropical forests.

Actually, as Global 2000 emphasizes, forest area in the developed world (including this nation) is approximately stable. The pressures for deforestation are far greater, and the environmental effects far more severe, in the poor countries of the tropics. Tens of millions of people are suffering today from these effects: intensified ruinous flooding in lowlands following the denuding of watersheds; water shortages in dry seasons; erosion of good soil and siltation of rivers, reservoirs, and irrigation canals; and, where soils are poor, an essentially irreversible transformation of productive rainforest into sunbaked, barren wasteland.

Besides the immediate human costs of deforestation, extensive degradation and loss of tropical forests also threaten the extinction of thousands—perhaps millions—of forms of life. Tropical forests are enormously diverse. Where temperate forests typically contain five or ten species of tree per hectare, most tropical forests usually have 100 to 150 tree species, in addition to a rich diversity of other plant and animal species. At the same time, these species are often very limited in geographic distribution. The wider the area of deforestation in this kind of forest, the greater the threat of permanent loss of its species. Wild species are an irreplaceable source of food, fuel, fibers, and building and industrial materials. Their potential for new pharmaceuticals is very significant; about one-half of the drugs on the world market were originally derived from living organisms.

Thus Professor Simon's limited data for U.S. forests are totally

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irrelevant to the real problem—the rapid conversion of tropical forests, too often to uses that cannot be sustained. As the Global 2000 Report points out, world data on forest area are incomplete, changes are very rapid, and monitoring is scanty. Reasonable, well-informed estimates of the annual net loss of the world's remaining tropical forests range from 1 to 2 percent. The Global 2000 estimate, 18 to 20 million hectares a year as of 1978 (about 2 percent) was based on Reidar Perssons's authoritative 1973 inventory of world forests, on Adrian Sommer's estimates for UNFAO of tropical forests in the mid-1970's, and on current reports from U.S. embassies and AID missions. Global 2000 projected that world forest losses would continue at the same annual rate through the year 2000—perhaps a conservative estimate given the expected population growth in less developed countries where pressures leading to loss of forests are intense.

Instability and Vulnerability to Disruption. Professor Simon says these concepts "are so diffuse that I have no idea how one would measure them directly." Indeed, no single set of numbers can "directly measure" these phenomena—for they are holistic, involving entire biological systems. Yet the concepts are easily understood.

Formerly productive grassland undergoing desertification is unstable. Tropical cropland losing 100 tons of soil per hectare per year under torrential rains, compared with similar forested land losing only one ton per hectare per year, is unstable. Overstocked grazing lands in semi-arid regions are extremely vulnerable to disruption by periodic drought. Likewise, the cultivation of crops on marginal lands is vulnerable to vagaries of weather. Agriculture that is heavily dependent on fossil fuel-based fertilizer may be disrupted by interruption of energy supplies. As demands for fresh water increase, the potential for conflict and disruption rises; of the world's 200 large rivers, 148 are shared by two countries and 52 by three or more.

Income and Non-Fuel Minerals. Simon's account of the Global 2000 projections in these areas is so mistaken as to seem willfully wrong-headed. He questions whether anyone knows the origins of or assumptions underlying these projections—implying that they were plucked out of thin air. In fact, there is no mystery about them. Their provenance and details are plainly laid out in several chapters of the Report's second volume. Simon's speculation that the projections for minerals assumed rising prices and no advances in technology is especially puzzling, since the Report explicitly states the contrary.

In an article of reasonable length, it is impossible to flag all of Professor Simon's misconceptions about the global issues covered in the Global 2000 Report, or his misstatements about the methods and authorship of the Report. The foregoing pages offer a sample.

Of course, the Global 2000 Report is not without flaws. Professor Simon's best critical point is one made emphatically and repeatedly

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in the Report itself: that the Government's long-term global models were not designed to be used together. They lack common assumptions, consistent methods, and adequate links among the various sectors—agriculture, fisheries, forests, and so on. As a result, there are substantial gaps and inconsistencies in the projections. For example, most of the sectoral models assume that resource needs in their own sector—for capital, for energy, for water, for minerals—will be met, regardless of the needs of other sectors. The net effect of the inconsistencies and missing links is probably to understate the seriousness of the global problems lying ahead.

Informed discussion and criticism of the Global 2000 Report can help remedy deficiencies in the analysis of long-term global problems, and lay the basis for a better understanding of the problems and what to do about them. But very little of this kind of criticism can be found in the Simon article.

Global 2000 has sometimes been labeled, not only by Simon but by others as well, as a "gloom and doom" report. It is not. Rather, it is a warning and a call to action. If the world continues in the direction it is headed now, then the present multiple strains on the earth's resource base and environment could become much worse. To reverse the present direction—to restore and protect the earth's capacity to support life and meet human needs—is a great challenge, but it is one that can be met.

Katherine Gillman was senior staff member for international affairs at the Council for Environmental Quality until May 1981.

False Bad News is Truly Bad News

JULIAN L. SIMON

KATHERINE GILLMAN says that "Global 2000 has sometimes been labeled, not only by Simon but by others as well, as a 'gloom and doom' report. It is not." Then why did every journal that came into my home interpret it that way? *Science*'s story headline was: "Global 2000 Report: Vision of a Gloomy World." *Time*'s headline was "Toward a Troubled 21st Century: A presidential panel finds the global outlook extremely bleak." *Newsweek*'s headline was "A Grim Year 2000." Even Rene Dubos, an observer whom Gillman appreciates, called Global 2000 statements "hysterical" in a *Wall Street Journal* article (May 8, 1981).

One can understand Gillman wanting to work both sides of the street—warning that things are getting worse but at the same time saying that the report is not of gloom and doom. But the facts do not permit her to have it both ways.

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Gillman's apparent escape from contradiction is the qualifying clause that appears frequently in Global 2000—"unless the nations of the world act decisively to alter current trends"—and the related distinction between "projection" and "forecast." About these qualifications Rene Dubos says, at the end of his very critical revew:

> Finally the creators of global scenarios should always keep in mind that the cautionary statement "if trends remain the same" is completely useless because, wherever human beings are concerned, trend is never destiny.

And in his review for Resources for the Future,[1] Marion Clawson says:

> The report states, "It must be stressed that the results of this study are projections, not forecasts." But, as always, this approach has limitations. If the projections are made from assumptions that have been chosen because they seem reasonable, the result may not be much different from a forecast based on what analysts thought would most probably happen. The projection/forecast distinction thus becomes mostly semantic.

In other words, these distinctions are just quibbling. That's why I drop the "unless . . ." phrase from my quotation, and not—as Gillman suggests—because I am distorting by quoting out of context.

Gillman denied the assertion I made in my article that there are links between the Club of Rome's *Limits to Growth* and Global 2000. Without any research on prior associations of the Global 2000 staff, these facts are well known. Mihajlo Mesarovic, one of Global 2000's seven-person advisory group, co-authored a book for the Club of Rome in 1974. Another of the seven formal advisors was Anne Ehrlich, whose description in her latest book says that she is a member of the U.S. Association of the Club of Rome. And among the "informal advisers" to the study were: Jay Forrester, the intellectual father of the Club of Rome studies; Donald Lesh, identified in the Global 2000 Report as a member of the U.S. Association for the Club of Rome; Dennis Meadows, co-author of *The Limits to Growth;* Donnella Meadows, its first author; and Verne Chant, identified as a member of the Canadian Association for the Club of Rome. What does it take to constitute a "connection" in Gillman's mind?

GILLMAN titles her piece "Julian Simon's Cracked Crystal Ball." A decade ago, the forecasts by Paul Ehrlich and the other environmentalists were of famine, a deteriorating resource situation, falling world fish catch, death of the Great Lakes, and so on. Starting before Earth Day 1970, my crystal ball foretold just the opposite of what Ehrlich and colleagues said would happen in the 1970's, and I put those views on record: The doomsayers were wrong, and

[1] Marion Clawson, "Entering the twenty-first century—The Global 2000 report to the president," *Resources*, 66, Spring, 1981, p. 19.

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I (along with a fair number of others) was not. Whose crystal ball is cracked?

If we look beyond the unpleasant ad hominem aspect of Gillman's style of argumentation—terms such as "misinterpreted," "misleading," "treatment of data is careless," "blind to ecological insights," "bias," and "willfully wrong-headed"—we can notice that she is implicity making a central issue of the appropriate treatment of evidence, standards of proof, and methods of analysis. I agree with her that this is the central issue here, so let us explore it.

Gillman's criticism of my writing offers an opportunity for the reader to test her treatment of evidence with respect to my article. Gillman says that I "see human progress rolling ahead without a hitch," that I "offer reassurances . . . that everything will work out for the best," and that "these matters will take care of themselves." She also says that "the *thema* underlying Simon's thought is that human ingenuity will always and inevitably triumph over nature." That is as inaccurate a description of my views as I can imagine. On the second page of the article Gillman is discussing, there appeared these lines:

> Please note that I am not saying that all is well now, and I do not promise that all will be rosy in the future. Children are hungry and sick; people live lives of physical and intellectual poverty, and lack of opportunity; some new pollution may indeed do us all in. What I *am* saying is that, for most or all of the relevant matters I have checked, the trends are positive rather than negative.

Gillman, however, is quite right that I do not see "mounting problems." Rather, I see human material problems in the future becoming less severe rather than more severe. But that does not at all imply that things are fine now, or that they will surely be dandy in the future. I have tried to make this clear, but either I have not found a way to say it well enough, or Gillman and others do not want to hear the message.

Rather than use up all my space with parry-and-thrust, I will take the opportunity to present some data that bear upon the subject of our common concern.

TREES. First I wish to correct an error, though it is not a misleading error. My article contained a diagram purporting to show that the quantity of trees of various sizes growing in the United States has been increasing from the 1950's forward. The diagram I showed came from the CEQ's Ninth Annual Report, which Gillman edited. Though the diagram was not so labeled there (and was inaccurately described in the CEQ text as showing a decrease rather than an increase in tree stock), the diagram actually refers only to North Carolina. On a better day I'd have gone to the original source rather than reproducing from (and attributing to) CEQ. In any case, the presentation does not mislead the reader because, as CEQ correctly put it in the discussion of the North

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Carolina data—"The southeastern states are a microcosm of much of the nation's forest situation." Data for the various regions in the U.S., and for the country as a whole, for softwood and hardwood, are shown in Table I. There we may see clearly that the stock of wood growing in the U.S. has been rising, just as I originally said that it has been.

Net Annual Growth of Growing Stocks and Sawtimber on Commercial Timberland, by Region [1]

	North	South	Rocky Mountain	Pacific Coast
1952	4.1	6.3	1.2	2.3
1962	4.9	7.5	1.3	2.7
1970	5.5	8.6	1.4	3.1

[1] Source: U.S. Department of Agriculture, Forest Service 1973. The Outlook For Timber In The United States. Note: Data for 1952 and 1962 differ from data published in earlier reports because of adjustments based on newer information from remeasured Forest Survey plots. Data for all years are "trend level" estimates.

Concerning deforestation: As Gillman notes, Global 2000 said that "40 percent of the remaining forest cover in less developed countries could be gone by 2000." And she then says that "extensive degradation and loss of tropical forests also threaten the extinction of thousands—perhaps millions—of forms of life." These sorts of statements by Global 2000 and others are so frightening that I have tried to look into them closely. What I have found is only a set of interlocking references none of which refers to any solid body of reliable trend data at all. For example, on species extinction Gillman simply refers to Global 2000, Volume II, pp. 328-31. She gives no source for the "some 40 percent" figure. The only references on deforestation she gives are Sommer and Perssons. Both those studies are assessments at a single moment; neither contains any basis for trend assessment, or even whether forests anywhere are increasing or decreasing. Sommer's work is basically impressionistic. Perssons's is an attempt to extend a series of surveys done by FAO, because FAO abandoned that line of work some years ago. And when Perssons's estimates are arrayed together with the FAO work going back to 1958, they show no trend at all.

With respect to Brazil and the Amazon region, which is the area of most concern to Global 2000: There is an astonishing difference in views between the environmentalists and the commercial foresters. The latter's view is that most of the original Amazon tree growth is unsalable and that logging operations are so difficult and expensive, especially because of lack of roads, that Brazilian governmental efforts to exploit the resource "rationally" with subsidies and various regulations are lagging badly and little cutting is being done.

The one thing that is sure about all this is that there is amazingly little solid data, and the vacuum is filled by impressionistic ac-

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counts. For example, Philip Handler, former president of the National Academy of Sciences, along with five other Directors of the Population Crisis Committee, wrote a "letter" to *Science* about an article of mine there, and they said (among many other things) that over the next *twenty* years, "At the present rate, some 40 percent of the world's rain forests may disappear." I wrote to Handler asking for the basis of the claim. He replied in part:

> I frankly doubt that there exists anywhere what could fairly be considered what you refer to as a "solid time series" on rain forests. It was for this reason that in our letter to SCIENCE we stated the concept of conversion of moist tropical forest in such equivocal terms, speaking of "some 40%" and that that portion "may" disappear...
>
> I doubt that the "some 40%" used in our letter to SCIENCE could be defended with any appreciable precision; there are some who feel that the current trends virtually assure complete destruction, others who feel that the situation is less catastrophic. What I think we were saying is that conversion rates are rapid and that a very substantial amount of the remaining moist forest will be gone in the easily foreseeable future.

There are a couple of interesting points to be noted here. First, the "some 40 percent" language is identical in Handler and in Gillman; one says "may" while the other says "could be gone"; it comes straight from Global 2000. These terms—"some 40 percent," "may," and "could be gone"—are "weasel words," language that *seems* to say something when you really can't for lack of evidence. Second, there simply are no decent data showing any rate of deforestation in Brazil, tropical forests, or the world.

Forests are important in themselves. But they are also important because the frightening forecast about loss of species depends on the putative impending loss of forests. The logic involved in the loss-of-species argument is so complex that I cannot here make a complete case that deforestation and species loss are not the threat that they are cracked up to be. What we can see is that Gillman provides no evidence here that they *are* a threat; she just asserts it and refers to the Global 2000 Report, which itself makes no case in terms of documented trends. (Gillman makes this clear in her wording: Perssons's work is a "1973 inventory" and Sommer estimated "tropical forests in the mid-1970's.") It seems to me that perhaps the key element in understanding Gillman's arguments is that, in general, she believes that one can obtain a sensible forecast on these issues from a one-time observation, the way one can make a sensible forecast of the death rate from a single observation of a cancer patient. But forests and other resources and environmental phenomena go in both directions, improving as well as deteriorating (as cancer seldom does), and therefore a time series is necessary to make reasonable forecasts even for the *direction* of a trend, let alone its magnitude.

A last note on forests and species: I am not saying that forests and

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species do not need safeguarding. All our valuable resources need our attention and our husbandry (perhaps wifery, too). But to bandy about unsupported data indicating crisis when the data do not show there to be such a crisis, even if the bandyers honestly believe there is one, is a mistake. The eventual result may be disillusionment and neglect, just the opposite of what all of us want. This is another example of how false bad news is truly bad news.

POLLUTION. Global 2000 says the world is getting more polluted. I say Global 2000 can't know that because no world data exist, and Gillman herself agrees that trend data do not exist. So far so good; to my way of thinking, this means we agree that there is no evidence that the world is getting more polluted. But as in Global 2000, no trend data is converted by Gillman into a statement that the world is getting "more polluted" on the basis of "projected increases in major sources." That typifies the differences between us.

I also said that in the U.S. air pollution is diminishing rather than getting worse. After a touch of innuendo—"Simon simply used a few data on U.S. air pollution from CEQ's 1976 Annual Report" —Gillman takes off in two directions at once. On the one hand, she first agrees that "our national efforts to control air pollution have improved matters" and on the other hand she says that "more complete and current data . . . reveal a more complex story."

Nobody said air pollution is simple. But the very first sentence on the first substantive "Highlights" page of the 1979 CEQ report says "Overall, the nation's air quality is improving." And the first sentence of the first chapter says "A variety of indicators of air quality all point to the same conclusion: Overall, the nation's air quality is improving." Could anything sound more straightforward than that? Gillman was the editor of that CEQ Annual Report.

Gillman also taxes me for using a graph with data for 1970-1974 to show that air pollution in the U.S. has declined. When I first prepared that material in 1976-1977, that was the latest graph available. But I'm delighted to report that another CEQ graph for 1974 to 1977 shows the same story. That figure shows the EPA's own "uniform air quality index," the Pollutant Standard Index (PSI), "a health-related index designed to be reported by the news media . . . to analyze and compare pollution levels on a uniform basis." Just how does this square with saying that "Professor Simon simply used a few data," i.e., that I oversimplified, and that my "treatment of data is careless," in this connection? Might it be instead that Gillman now wishes to make things complex in order to keep us from agreeing that air quality is improving in the U.S.?

About water quality: I presented data from 87 stations of the U.S. Geological Survey showing that water drinkability improved from 1961 to 1974, and these data were taken from a CEQ Annual Report. And Gillman agrees that "These 1975 figures *did* show distinctly improving trends in both drinking water quality and aquatic life protection." But then Gillman tells us not to pay attention to

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that trend because data on these 87 stations were not reported again, and the reporting network now includes 349 stations. Yet she adduces no evidence to show that the 87-station survey has been shown to be wrong. Furthermore, there is no long-run data series for the 349 stations, and certainly no data in them that suggest that the positive trend I reported is unsound.

NON-FUEL MINERALS. In Gillman's section, now labled "Income and Non-Fuel Minerals," she says that "Simon's account of the Global 2000 projections in these areas is so mistaken as to seem willfully wrong-headed." Her section contains so little detail that the reader cannot know if any given sentence refers to income, minerals, or unicorns. And in her earlier draft her unpleasant characterization of me ("mistaken . . . willfully wrong-headed") was in a section that had nothing in common with this one except half the title ("Non-Fuel Minerals"). What we are left with is a free-floating nastiness without documentation, apparently a phrase too juicy for Gillman to drop when she dropped the rest of the section which originally contained it. What I wrote about non-fuel minerals is not even touched on by Gillman, and stands intact.

FOOD. To review, I noted a 28 percent (or 37 percent) increase in per capita food production from 1948-1951 to 1977, and asked "Why should [Global 2000] project a much smaller rate of increase (15 percent) for an even larger period?" Gillman infers that I am making a forecast that "per capita food production should rise more than 28 percent (or 37 percent) between 1970 and 2000." I made no such forecast, though one might indeed do so without being "statistically incorrect."

Gillman then goes on to say that the "accepted method" would lead to an extrapolation of a 21 percent increase from 1970-2000. Is there a statistician in the world who would not agree with me that there is *no* "accepted method" of making forecasts from trends? The choice of regression line is a technical judgment matter, subject to argument and involving issues far too complex for discussion here. (For example, should the line be straight or curvilinear? Should it be constrained through the origin or not? Should 1948-51 be weighted equally with one-year periods, or given a value of three? Should least squares be used, or some other formal method, or even the eyeball method?) The only thing that *is* accepted is that the researcher should say exactly how the regression line was fitted—and that Gillman does not do. Gillman simply says she fits a straight line to the data without telling us how, and gives us a number.

One thing we can know: If Gillman's method used the data points as shown on her graph (regrettably not reproduced in the published version) her analysis certainly is wrong, because—and this the lay reader could check for himself—the point for 1948-1951 is placed at 1951. Moving the point to midway between 1948 and 1951 where it belongs affects the impression appreciably. Having the point

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where Gillman has it also may have influenced the "little further analysis" in which Gillman concludes that the rate of increase in world per capita food production has been decreasing. Gillman does not tell us how she does the "little further analysis," nor does she credit any source. Again, the more general and most important point is that forecasting on the basis of recent *short* periods alone, rather than on the basis of longer-run time series, is a proven invitation to error.

Given all this, it seems to me rather out of line for Gillman to say that my simple statement—which is *not* wrong—is "an elementary error in statistical technique that leads to an overstatement of at least one third of projected food production per capita in 2000."

INSTABILITY AND VULNERABILITY TO DISRUPTION. Gillman presents no overall trend data showing that our environment is getting more unstable or vulnerable. She simply talks about "phenomena" that are "holistic, involving entire biological systems," and says that "the concepts are easily understood." In other words, her conclusion is obvious to her, and if it isn't obvious to me and to others without quantitative trend evidence, then there must be something wrong with our vision or comprehension. She does talk about "tropical cropland losing 100 tons of soil . . . per year," but she gives no reference for her statement. Here we are back to the Global 2000 style, and the frustration of criticizing it.

A concentrated block of this evidence-absent writing may be found in the paragraph beginning "*Net* increases . . ." Notice that a large number of qualitative and quantitative assertions are made which in ordinary scientific usage require documentation. Gillman gives a source for just one—and the source is Global 2000. Her article is full of this sort of thing, which tends to slip by on a casual reading.

When I say that Gillman gives no documentation for her assertions, someone will say to me: "Well, show me some figures that prove that her assertions are wrong." But whose responsibility is it, hers and Global 2000's or mine, to adduce evidence concerning their statements?

LAND. Gillman sometimes highlights and supports the very point that I am trying to make while even apparently criticizing it. Air pollution in the U.S. was one example; now arable land is another. Global 2000 projected a 4 percent total increase in world arable land for the almost thirty years from 1971-75 through 2000. I pointed out that in the twenty years from 1950-1970, arable land had gone up 16 percent. Now Gillman responds that on the basis of newly-available data, arable land only went up 3.5 percent for the eleven-year period from 1968-1978. Even assuming that such a short period's data are accurate and constitute a meaningful trend, how does 3.5 percent in eleven years support a Global 2000 forecast of 4 percent in almost thirty years? (More fundamentally, to focus on recent short periods is the source of a great many unsound pre-

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dictions. At a minimum, it would make sense to average all the data from 1950-1978.)

INCOMES. Gillman says "there is no mystery about" the origin of the GNP income projections. But all she can do to enlighten me—or for that matter, Anne Carter, the key economic adviser to Global 2000, who herself does not know the origin of the projections—is to refer us to the Report, which I have already ransacked without enlightenment. I looked again, and the mystery remains.

Gillman says that "Simon's best critical point is one made emphatically and repeatedly by the Report itself . . . that the models were not designed to be used together." The implication is that I didn't even need to criticize; Global 2000's self-criticism was enough. Self-criticism is indeed an attractive trait. But better than apology for bad procedure is not to proceed badly. If the models did not fit together, why did they use them together?

That was not my "best critical point" however. My central criticism of Global 2000 is that their conclusions were not supported by any of the sort of evidence they themselves said was called for, "long term global data."

A PERSONAL NOTE: Gillman has earlier written that my views "hardly lack for an audience." She says that my "rise to national attention in recent months has been meteoric." That would be funny if it were not so painful. Maybe it will give Gillman a bit more confidence in my analyses if she knows how long these ideas have been in the forge, and how many times they have been tested. For more than a decade I tried without success to find an audience for my data, analyses, and views concerning population and resources. In the 1960's, when I still was working on the question of how to *reduce* the population growth rate (before my views changed), the most respected professional journals in their fields were pleased to print my work. But when I began to do empirical and theoretical work that indicated positive effects of population growth, the gates of the journals—both technical and non-technical—shut. Much of my writing on the subject ended its days in my filing cabinets, or had to await five years or more for publication in book form. (Of course it might be that the quality of my work took a sudden turn downwards when my views changed.) And I might still be banging on the gates in frustration if *Science* had not published my piece in June 1980. That bestowed some legitimacy on me.

A general remark in closing: Even when Gillman says that the trends have been positive, she leaves the impression that the future will be worse. How can Gillman and I—acting here as representative spokespersons for others, and I trust both of us persons with society's interests at heart—arrive at such different conclusions about which way the world is going? One difference is—as Gillman notes—that our basic *themas* are different. As I see it, Gillman's *thema* is fixity or finiteness in the relevant system of discourse, though to my

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amazement Gillman says it is not so. (How many would agree with her that "Ecologists and other physical scientists do not believe that resources are finite"?) But the *thema* concerning resources underlying my thinking (and that of a significant minority of others) is that the relevant system has a long enough horizon that it makes sense to treat the system as changeable, and not finite in any operational sense. But again, my *thema* is *not* that "human ingenuity will always and inevitably triumph over nature," as Gillman puts it.

Another basic difference between us is that Gillman's forecasts are made on the basis of technological thinking—that is, by examining various technical aspects of the situation that the analyst (ecologist, physicist, chemist, biologist, engineer) takes to be important. In contrast, and in keeping with what I take to be the basic lesson of business and economic forecasting, I wish to rely upon trends of experience in the past where these trends are available, modifying the trends only where there is solid reason to believe that structural conditions have changed. Experience is usually superior where it is available because it ensures that no key element or interaction is inadvertently ignored. But where one faces a truly new situation, of course, one is forced to rely upon technological analysis. It is relevant, when thinking about this difference between Gillman and me, to remember that Global 2000 began by asserting that its conclusions should be based on trend data. The Report failed to do so: It lacks substantial trend data and ignores what trend data *do* exist, and this is a fatal flaw. Gillman does not repair it. That is still the crux of the matter.

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FALL BOOKS

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Arthur Okun's Last Work

ROBERT M. SOLOW

***Arthur M. Okun:* Prices and Quantities: A Macroeconomic Analysis.** *Brookings Institution. 359 pp. $19.95.*

Over the years, I must have read six or eight attempts by theoretical physicists to explain to the intelligent lay reader what hadrons and leptons and quarks and now solitons are all about. Not once have I experienced that mental click of understanding that tells me I can see what they are trying to do, that I grasp what the subject looks like from the professional's side of the fence. Molecular biologists may have been more successful in communicating the nature of their subject to non-specialists, perhaps because one can at least try to visualize those spiral strips of DNA being read off and duplicated by some tiny Xerox machine. But deep down I know I lack any real grasp of the chemistry of the thing or any feeling for the theoretical questions that must exercise the professionals.

The gap between the insider's view and the outsider's view is almost as bad in economics, maybe even worse. It is only almost as bad because the basic concepts are part of everyday experience or, more accurately, not very exotic abstractions from that experience. It is maybe even worse for the very same reason: The familiarity of the vocabulary makes you think you understand an analytical argument when the real subject is more abstract and more difficult. Works of popularization in economics are generally polemical, rather than analytical, in intent. They are more likely to try to exploit this difficulty than to ameliorate it. Since the stakes in economic policy are high, there is no shortage of balderdash.

Arthur Okun's posthumously published book is not a work of popularization. Its language is mostly plain English. There are only a few pages of simple mathematics and a couple dozen of those diagrams that permit economists to substitute geometry for algebra. But the text is clearly addressed to Okun's fellow economists. He does not work hard to avoid the technical vocabulary—when he means "marginal revenue product" or "elasticity of supply" he says so. (One might almost wish he had used jargon more, to warn the unwary that "This is not as simple as it looks.") The main difference between this book and pop-economics is that it makes a sustained logical argument. Plain English or not, conclusions reached

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around page 350 depend on assumptions stated and defended 300 pages earlier. The argument is about fundamentals, and it covers a lot of ground. I am going to try to state Okun's view clearly and persuasively, because by and large I happen to share it.

First I must say a word about the author and the circumstances of the book. Arthur Okun died suddenly in 1980 at the age of 52. He was the salt of the earth. More to the point, he was passionately devoted to aggregative economics and above all to the theory and practice of macroeconomic policy. His critical acumen was famous within the profession, along with the depth of his knowledge of the shape of the data. No one had a better feeling for what piece of theory would wash empirically, and what would not. It does not bother me to discover that I am in disagreement with A or B or C. But for me, and I hope for others, there are perhaps three or four colleagues, disagreement with whom awakens instantly the gnawing feeling that I am probably wrong. Okun was one of those. He apparently left the manuscript of this book in good shape. It was prepared for publication in just one year by his colleagues at the Brookings Institution in an act of collective devotion that makes perfect sense to anyone who knew him and knows them. Okun was a superb editor, as anyone could tell you who ever published a line in *Brookings Papers on Economic Activity*. He would have made further revisions had he lived, but this version will do. My father, who was a furrier, once remarked sadly, on looking at some sable skins, what a pity it was that only a connoisseur like him knew how good they really were. A layman can not possibly know what a good economist Art Okun was.

To a first approximation, the goal of aggregative economics is to understand the forces that govern (1) the general level of prices, and (2) the quantity of real output and employment in a particular economy at a particular time. Hence the title of Okun's book. That need not be the end of the matter, of course. One could inquire further into the way real output is divided between current consumption and the accumulation of capital. That might lead in turn to a study of the determinants of wages, interest, rents, and profits. But the book is mainly about price and quantity.

Suppose that I want to pinpoint on a map of the United States the location of a buried treasure. That location is specified uniquely by two numbers, its latitude and longitude. If I tell you that the treasure lies on the straight line connecting Seattle and Baltimore, I have eliminated most of the map, but you will still have to do a lot of digging to find the treasure. If I tell you that it is also on the straight line connecting San Antonio and Boston, I have told you all you need to know. Those two relations are just enough to determine the latitude and longitude of the treasure. Perhaps you noticed that I have tacitly assumed "Seattle" to be a well-defined point; we might adopt the convention that a city is located at the midpoint of the entrance to City Hall. If a city is smeared over a

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slightly larger area, then my instructions will only locate the buried treasure as being in the small parallelogram formed by the intersection of two thick pencil lines. This ambiguity is actually an advantage of the analogy, not a flaw.

Ever since the publication of J.M. Keynes's *General Theory of Employment, Interest and Money* in 1936 (and perhaps before—I am no historian of economic thought) macroeconomists have argued that a particular price level and quantity of real output provide more than an ephemeral resting-point for the economy if and only if they satisfy two conditions. In this respect, price and quantity are like my latitude and longitude analogy. One condition requires that at the particular price level in question there should be willing purchasers for just the quantity of real output in question. That is a demand-side condition. We say that price P and quantity Q lie on the aggregate demand curve, just as the latitude and longitude of the buried treasure lie on the line from Seattle to Baltimore. The second condition requires that the producers in the economy be willing to produce and sell the quantity of real output in question at the price level in question. That is a supply-side condition. We say that P and Q must lie on the aggregate supply curve (like the line from San Antonio to Boston). For this to be a good theory, it had better be the case that one and only one combination of price level and quantity of real output satisfies the two conditions. If I changed Baltimore to Bakersfield in my earlier instructions, you would have to conclude either that there is no treasure or else that I am putting you on.

This general approach to the fundamental question of aggregative economics is more or less common ground. It is not special to any particular school of thought. Schools of thought differ about the right way to analyze aggregate demand and aggregate supply. Keynes himself clearly and definitely stated the need for both conditions to be satisfied. But it is fair to say that his own contribution was focussed primarily on the analysis of aggregate demand. For quite a while the Keynesian tradition, with a few notable exceptions, followed along the same path. It was mainly the inflation of the 1970's, which seemed to be quite able to persist without excess demand, that brought the supply side back to the center of attention.

OKUN says, "The domain of this book is what Keynes described as the aggregate supply function." Some readers may wonder why Okun's book and my review of it make no contact with the "supply-side economics" of the Reagan administration. Okun died in March 1980, and this book is really an elaboration of an article he wrote in 1975. But there is a more important reason. The "supply-side economics" of contemporary Washington and the *Wall Street Journal* simply can not be discussed at this level. It has no intellectual substance of which to speak. It is an excrescence of right-wing politics, not a source of right-wing politics. That is why it has nothing to do with the issues discussed here.

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The aggregate supply function is supposed to describe the pricing of produced goods and services. It seeks to relate the aggregate of production and employment decisions to the general price level. Naturally, then, one's view of aggregate supply is likely to reflect one's view of the way markets operate in the contemporary economy. Okun distinguishes two ideal types and calls them "auction markets" and "customer markets." I doubt that the label "auction market" is well chosen. It does not at all signify an auction in the conventional sense of sequential bidding for a single item at a time. Okun has in mind an organized exchange like a stock market, or the Chicago Board of Trade, or the London Metal Exchange. The important characteristics are impersonality and price flexibility. Buyers need not even know the name of the seller from whom they buy, nor sellers the identity of their ultimate buyer. Usually in such markets there is a class of brokers or traders, who may or may not trade for their own account, but whose main function is to accept buy-orders and sell-orders and to find a price at which the market "clears" (i.e., a price at which the volume of each item offered for sale is just equal to the volume of buy orders). Those transactions are then carried out, and the market is ready for the next day's (or hour's) business. Perhaps such a market can operate without organization; perhaps a bazaar works in much the same way.

A customer market is something quite different. Here an individual buyer and an individual seller form an enduring relationship which may or may not take the form of an explicit contract. In the absence of a formal contract the customer relationship could be abrogated at any time by either party; but that is likely to happen only occasionally. A customer relationship does not endure just for auld lang syne. Both parties profit from its preservation. Perhaps the products itself is idiosyncratic, so that it is useful for the buyer to know what the seller's stuff is like and useful for the seller to know the range of stuff that the buyer can tolerate. Perhaps the seller provides repair and maintenance services along with the primary object of sale. Perhaps the mutual advantage is simply that the buyer knows that the seller will provide a reliable source of supply, and the seller knows that the buyer is a fairly steady source of purchases. Since there is a mutual advantage to be shared, there is room for bargaining and conflict about the division of that joint profit between the parties. But once a satisfactory arrangement is achieved, there is good reason for each party to agree not to exploit minor advantages to gouge the other. For one thing, minor advantages have a way of fluctuating, so there may be no long-run gain from gouging. For another, the gougee may respond by withdrawing from the relationship and that could cost the gouger more than the gouge was worth. For yet another, a reputation as a gouger may make it harder to achieve satisfactory customer relationships in the future. Finally, it would not be surprising if mutual standards of fairness were to evolve and be internalized or enforced by extra-economic sanctions or both.

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You can see right away that organized exchanges and customer markets will behave differently. If there is a small-to-medium sized "blip" in demand, in an organized exchange there will be an almost-simultaneous blip in price, in the same direction as the blip in demand. In a customer market, there may be no price-response at all, or a highly-attenuated one, because most buyer-seller pairs will see insufficient reason to change their pre-existing mutual accommodation.

Almost a third of the book is given over to applying this distinction to the labor market. Obviously, there have to be some modifications. There are few, if any, examples of stock-market-like arrangements in which the commodity being bought and sold is a day's work. The place of the auction market is taken by a search-oriented view of the labor market. At any moment there is a fringe of unemployed workers who are sampling job offers at whatever wage rates turn up. At each such step, a searcher must balance the advantages of accepting the job and those of refusing it in order to search for a better one. Searchers think they know something about the comparative availability of jobs at different wage rates, but they do not know exactly where those jobs are; that is why they must search. Employed workers are forever balancing the advantages of staying on the job for another day at the going wage and quitting to join the search for a job at a higher wage. Meanwhile, an employer who wants to add to his or her workforce will start offering slightly higher wages. There will be fewer resignations and more acceptances, and employment will rise. Firms with falling sales will shade their wage offers downward to generate more resignations and fewer acceptances. There is no point in such a firm laying off some of its workers while paying the old higher wage rate to the rest.

In analogy to the customer market, Okun describes an alternative "career labor market." Workers and firms create long-term job relationships with obvious mutual advantages: steadiness of work, acquisition of special skills, learning the ropes, willingness to work unusually hard when the shop is under the gun, willingness to keep people on when business is slack. As Okun puts it, the need for an initial period of training and trying-out makes the labor market function as if every new employee requires the payment of a once-for-all "toll." Somehow the toll must be shared by the worker and the employer. If the worker's share were discharged by the acceptance of a very low wage during the breaking-in period, there would be a temptation for the employer to exploit the situation by rapid turnover and the creation of a low-wage, low-productivity pattern of employment. If there were no initial low-wage period, workers could exploit the situation by quitting as soon as they had acquired valuable skills and selling them to some other employer who would be prepared to pay well precisely because no further breaking-in would be needed. The obvious compromise calls for a wage that rises with experience: more than the worker's productivity justifies at the

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beginning so that the employer has a stake in keeping the worker on, with raises large enough so that the advantages of seniority will keep the worker from quitting but small enough so that there is some profit for the employer. (There is excellent new evidence, collected by James Medoff of Harvard and Katherine Abraham of M.I.T., that seniority is exceedingly important in the distribution of promotion and perks, indeed more important than the productivity gradient can justify by itself.) All this is developed by Okun with great subtlety and detail.

In a search-oriented labor market, wage rates provide all the signals. Personnel departments do not issue layoff notices (except for cause) nor do they ever hang up a sign that says "No help wanted." If the business environment fluctuates, the wage fluctuates with it. In a career labor market, those same fluctuations in the business environment are more likely to be reflected in fluctuations in the intensity of work. The wage structure may be untouched. If business gets bad enough, the rules of the game will have to allow layoffs, temporary or permanent depending on whether we are talking about a reversible fall-off or a long-run decline. But as long as some of the regular workers are on layoff, the personnel office will not be open to make offers to searchers who happen to show up.

I have not yet said why this classification and description of markets is important. First, it is necessary to form an opinion as to how much of the world corresponds to the auction (or search) market model and how much of it more nearly resembles the customer (or career) market model. This is easily done: The auction markets stick out precisely because they are atypical. I have already mentioned the stock market and the Chicago grain exchange. When a couple of trawlers come in to Boston and their catch is auctioned off at the Fish Pier, the event is almost picturesque. Typewriters, men's shirts, oilfield pipe, machine tools, fire insurance, and medical care are not sold that way. Nor is most labor. We have special names for casual labor or sweated labor; where skill, care, or reliability count for something, the career labor market seems much the better model.

Now why does it matter? For one thing, the customer market model offers an intelligible explanation of an important empirical regularity. Whenever the question has been carefully studied, it has been found that industrial prices respond primarily to changes in costs and hardly at all to ordinary variations in demand. I did some work like that myself once. Any cost factor I could measure turned out to have a discernible impact on the price index for manufactured goods. But I had to twist and turn and count myself a clever lad in order to tease out of the data an indication that the capacity utilization rate had an influence on the price level. On the auction-market model this is inexplicable. When the soybean crop is bad you expect the price of soybeans to rise. But imagine a customer market. If a seller takes advantage of a slight favorable

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tilt in the supply-demand balance to raise the price, customers may regard it as a violation of their implicit agreement and respond by going elsewhere or insisting on concessions when the balance tips again in their favor. The shared benefits of the customer relationship will be lost to both parties. A cost increase, on the other hand, is much more likely to be recognized by all concerned as a legitimate reason for a higher price. No one's feelings about fair treatment are likely to be outraged by the passing-on of changes in costs. And in fact many sellers make a practice of notifying their customers and documenting cost increases in advance of their incorporation into the price.

The issue goes much deeper, however. We have reached the edge of the main doctrinal split in contemporary macroeconomics. Let us go back to first principles. Price level and quantity of output are determined by the simultaneous satisfaction of the demand-side condition and the supply-side condition. But what happens when there is a "reduction in aggregate demand"? There is a particularly simple and convenient way to make that notion precise. Suppose that the demand-side condition takes the form of specifying the dollar total of aggregate spending. The particular dollar total may depend on such "outside" variables as monetary policy, fiscal policy, and the volume of exports, and will change when they change. But given the setting of those outside variables, the aggregate demand function says that there will be so many billion dollars of total spending. Obviously, then, the higher the price level the smaller the quantity bought will be, and the lower the price level the higher the physical volume of output that can be supported. A reduction in aggregate demand is then just a reduction in the dollar total of expenditure. (By the way, this specification of aggregate demand is a typically "monetarist" simplification. It has little or no theoretical or empirical justification, and Okun did not believe it any more than I do. But it is convenient, and our main purpose is to talk about aggregate supply.)

Aggregate spending falls. If the price level falls by the same proportion, the volume of output and employment need not change at all. If the price level falls less than proportionately, there must be some reduction in output and employment. And if the price level does not fall at all, output must fall by just as much, in percentage terms, as aggregate spending fell in the first place. It would certainly be a good thing if variations in aggregate spending, some of which are probably unavoidable, were completely absorbed by variations in the price level. Then output and employment could be steady (or increase smoothly in a growing economy). Under those circumstances, it would be no great problem to make sure that the steady volume of production was the right steady volume, corresponding to the community's desire to work and to save. What is more, in a world full of auction markets which function well you would expect the price level to absorb fluctuations in aggregate spending. Any touch of excess supply pushes prices down, any touch

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of excess demand pushes them back up. The economy ought always to be producing whatever the fundamental determinants—productivity, thrift, willingness to work—make it able to produce. There would be no recessions. (OPEC or bad weather might make us temporarily or permanently poorer, but those count as changes in the fundamentals.)

Unfortunately, life is not like that. We do have fluctuations in aggregate spending, but the price level does only a small part of the work it ought to do, and the rest (perhaps 80 to 85 percent) is absorbed by output and employment. So we do have recessions and recoveries and booms. Analogously, we have the simultaneous occurrence of inflation and economic slack. It is the job of macroeconomics to understand why those things happen, what there is about our economic system that keeps it from functioning in the ideal and "natural" way I sketched a moment ago. It is precisely here that the profession divides. One school of thought proposes to stick to the picture of the economy as a collection of auction markets, which must always be cleared. Except for minor aberrations, sellers should be selling what they want to sell, and buyers buying what they want to buy. The other school of thought—to which Okun belonged, and I belong—regards the stickiness of prices and the corresponding volatility of output as a reflection of the vast difference between the real world and an imaginary collection of auction markets. As I hope you now realize, the two schools of thought represent different views about the nature of aggregate supply.

On the face of it, the market-clearing (or auction-market, or "equilibrium") school has a tough row to hoe. An auction-market economy ought to have an aggregate supply function that forces the price level to do all the adapting to fluctuations in aggregate demand. How could such an economy experience business cycles? The answer they give is vastly ingenious. For that very reason, I may not do justice to the subtlety of the argument, but you will get an idea of the way it goes.

Let us say aggregate spending falls. You know and I know that the end result in an auction-market economy ought to be that every price falls in the same proportion. Since dollar costs will have fallen in the same proportion as dollar revenues, nothing "real" will have changed, so firms and their employees should be content to keep doing what they were doing before. The *status quo post* will be exactly like the *status quo ante* except that every price tag will have been written down by the same percentage. You and I now understand this but firms and their employees have no way of understanding it. The drop in aggregate spending reaches the firm in the first instance when it sees a falling-off in its own sales. For all the firm knows, it is seeing the first signs of a shift in the *mix* of spending, away from the commodity it sells. If there is any tendency for the price of the product to fall, it happens *before* the firm has observed any offsetting fall in costs. So the firm naturally cuts production.

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Having misread the situation and reduced its production, the firm needs less labor. It shades its wage offer downward. In accord with the principle that people see changes in the price of what they sell before they see changes in the prices of what they buy, this is the way the bad news reaches the workers. They interpret the slight weakness in the wage as a reduction in the real wage. They are therefore less inclined to work, more inclined to rest. Especially if nothing has happened to change their long-term expectations, they may well decide that it is better to rest more now when the real wage is low, and work more later when the real wage will have risen back to its normal level. Meanwhile, unemployed workers who are searching for jobs will not realize that the assortment of jobs and wages out there has changed adversely. They will read the slightly lowered wage offers they encounter as a run of bad luck, and will search longer before finding an acceptable job offer. And with more resignations and longer job-searches, employment falls.

We have now generated a reduction of output and employment. Each firm is producing and selling as much as it wants to produce and sell, given its misperception about what is happening to relative prices and relative demands. Each worker is dividing his or her time between employment and leisure in the desired way, given his or her misperception about what is happening to real wages. Eventually, no doubt, the truth will dawn on everyone. All prices and wages will have been marked down together and real output and employment will move back to the original equilibrium level. In the meanwhile, the economy will have experienced a recession. If aggregate spending were to rise, a symmetrical boom would occur.

The fundamental source of the recession was the fact that participants in the economy operate with partial and imperfect information. Had they realized that they were merely experiencing a reduction in *aggregate* spending, the variation in output and employment would have been negligible. There is really no room for public policy in this picture. If the firms and workers were right in their perceptions, they did the right thing and the government has no call to induce or compel them to do otherwise. But suppose the government is—incredibly—better informed than the firms and workers. Should it not then intervene? The answer is that all it need do is share its superior information with the rest of the economy and all will be well. Only a slight amendment to the old prescription is called for: *laissez-faire, laissez-savoir.*

The only thing this story lacks, for me, is the ring of truth. But it has attracted a substantial number of able macroeconomists (the "rational expectations" school). It has seemed to me that they argue for it not on the basis that it corresponds to reality, but because it is the only way they can find to hang on to their intellectual inheritance of an economic system based on individualistic optimizing behavior and perfect auction markets, and still produce business cycles.

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For Okun, with his finely developed sense of what is actually happening out there, this theory was simply implausible. Recessions and booms last too long, and events are too widely publicized; the rational creatures of the rest of the theory could not be deceived as persistently as the theory requires. Besides, why would anyone want to hold a theory whose mechanism for generating unemployment is more resignations and no layoffs, when the data say that there are indeed layoffs, and resignations increase in good times, not in bad?

I need hardly emphasize that, once you have accepted the prevalence of customer markets and career labor markets, the rest is easy. When aggregate demand falls, the prices of goods that are actually sold on organized exchanges fall too. In customer markets, however, prices hold firm because part of the implicit bargain between buyer and seller is that neither of them is to take advantage of a change in market tone to gouge the other. There will be some erosion of prices because the fall in auction-market prices will mean cost reductions that are normally passed on to customers through the application of standard mark-ups. But the price of what economists call "value added" will not change much, so lower aggregate spending will work itself out in a lower physical volume of production.

With reduced production, there will be some layoffs. Where reasonable, even these may be delayed. The existence of "labor-hoarding" is well known—some production for inventory will take place, to be worked off in the next boom; some workers will be kept busy doing maintenance or busywork. When layoffs occur, they are in order of seniority, with the understanding that workers will be recalled when business picks up. Unemployed workers are not kidding themselves that the next job offer will be at a higher wage than the last. More often they find that firms are just not hiring. Of course, depending on circumstances, some find work in the casual labor market—pumping gas, odd jobs. The recession shows itself in unwanted unemployment and underemployment.

The policy implications of this model are different, too. In a sense, the recession (or the excessive boom) is "caused" by the set of institutions in customer markets. But it would be a mistake to conclude that those who will the cause must will the effects, so all is for the best. Fluctuations in output and employment are an unwanted side-effect of social institutions that serve other purposes. If public policy can relieve those side effects, it should. To put it more technically: There is no presumption that the *laissez-faire* outcome is socially optimal. Institutions and actions that serve some participants impose costs on others. Public policy may permit having the cake *and* eating it. Okun, always a great hand with the homely analogy, says: "I would be morally outraged by a local ordinance designed to promote fire prevention by prohibiting the fire department from responding to any alarms for a month."

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This is the place for me to point out what seems to be the main weakness in the position that Okun and I share. Firms and workers could protect themselves against some of the unwanted adverse consequences of the social institutions they have—for good reason—constructed, if more contracts were in "real" terms. When aggregate dollar spending falls, it would be better for nearly everyone if prices were to absorb the whole burden. But the rules of the game tend to make prices sticky. Price flexibility would be easier to achieve if private arrangements involved more "indexing". Firms would more freely cut prices if they were sure that lower prices would automatically bring lower wages. Workers would care less about wage rigidity if they had some sort of real-wage guarantee. Why doesn't that happen spontaneously on a larger scale? To this Okun might have responded that indexing tends to freeze relative prices, and is an inefficient way to do business. (But is it not the lesser evil?) He might also have pointed out that nominal dollar contracts are simple, easy to negotiate, and easy to monitor. (But would it be so hard to learn a new trick if it promised steadier employment?) His answers have merit, but I would be happier if I knew a more convincing story.

I have been arguing so far as if the problem were to understand why prices move up and down so little. That makes the analysis easier to explain. But the real problem, of course, is to understand why inflation persists, and accelerates and decelerates so slightly when economic conditions change. The last three chapters of *Prices and Quantities* tackle the inflation question directly. The details are too technical for polite conversations, but I will try at least to convey the flavor.

It is not hard to imagine how the conventions in customer markets and career labor markets might adapt to an inflationary environment. "Normal" rates of inflation get built into wage conventions and, via the standard markup, into price conventions. What is felt to be "normal" is subject to change under the pressure of events, but only slowly. These market institutions are thus not an independent source of inflationary impulses. But they are an excellent transmission belt for inflationary impulses that arise elsewhere. Where do inflationary impulses arise? Lots of places: from bursts of excess demand like the Vietnam war, or from adverse supply shocks like OPEC and poor grain harvests, or from depreciation of the currency and the consequent rise in import prices. Besides transmitting the resulting inflation, customer-market institutions make it hard to reverse inflation.

Okun then makes an interesting argument (which I can not reproduce here), to the effect that the kind of economy he has been describing is likely to generate more slack than is good for it. Underemployment and excess capacity are more likely than overemployment and capacity shortage. Thus there will frequently be a case for stimulative monetary and fiscal policy. But the fear

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of releasing or reinforcing inflationary pressure will often inhibit governments from doing what would otherwise be desirable. This may be one of the main social costs imposed by the inflationary bias of modern economies. There are other costs as well.

On the whole, a constant price level should be one of the important objectives of economic policy. Since the passing-on of costs is the main mechanism of persistent inflation in a slack economy, it would be a very nice thing if governments had ways of creating reductions in money costs to offset cost increases before they cause trouble. I will be happy if I have made you see how the need for such policy devices follows from a clear and plausible analysis of the modern economy.

Perhaps I should say to readers of *The Public Interest* that this is a book whose influence your Editors—or at least one of them—may be warning you against. The warning is needed, because the book is very likely right.

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The Zone of Destruction

NATHAN GLAZER

***Peter D. Salins:* The Ecology of Housing Destruction: Economic Effects of Public Intervention in the Housing Market.** *New York University Press. 155 pp. $12.50 hardcover, $7.50 paper.*

THIS little book, the first, I believe, on the spreading destruction of New York City's housing, has received little or no attention, which is a more serious indictment of New York City's ability to govern itself than its inability to keep the streets clean, to combat crime, or to keep the subway going. As against these afflictions of New York City, there is, Peter Salins argues, a solution in the case of housing destruction. The destruction of the housing in which the middle classes of the city were raised—not the slums of New York, but its solid middle-class housing—through disinvestment, abandonment, vandalism, and arson can be dealt with through policy, if it is understood. Admittedly there is a more immediate crisis every day for the mayor, the City Council, the party leaders, and the editorial writers as they face the spreading swathe of devastation that has no equal anywhere in the world, devastation which shocks every foreign observer and seems to have numbed every analyst. But I now have something to put in the hands of these foreign observers of our domestic scene when they ask me to

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explain the devastation: Peter Salins's book. I still have no answer to the further question: "And why was nothing done about it?"

Salins argues that there are three basic city policies that have led to the destruction of New York City housing. But first he rejects some inadequate or even false analyses that have themselves helped create the "jerry-built" structure of policies that have, in fifteen years, contributed to the plague.

Thus, the problem is not that the city's poor have grown in number and declined in ability to pay for housing. Quite the contrary—the poorest, the 300,000 families on welfare, now have their rent paid for them through separate allowances, and their average payment, Salins shows, is not much less than the average rent payment in the city. In any case, we have always had poverty in New York, and it is only in the past decade and a half that we have had massive destruction of the housing stock. Further, the units abandoned and now threatened by abandonment far exceed in number the households of the poor.

Is the problem that people do not pay the rents required for decent maintenance, a problem created by rent regulations? Not really: Destruction has increased even while some efforts have been made to allow rents under regulation to rise somewhat to come closer to costs.

Is it that the population of New York is declining, and there is just too much housing? To some extent. But the units that are being destroyed are by no means the oldest or the worst (physically), and the same phenomenon cannot be seen (on the same scale) in other cities with populations declining even more rapidly than New York. Salins also points out that at least some part of the exodus is itself caused by the spreading destruction of neighborhoods and housing. In any case, this is no civilized way to deal with surplus housing.

Is it that only public housing can really handle the problem of the poor? Salins points out that even public housing is no panacea (note the demolition of Pruitt-Igoe, and the vacancy rates and vandalism that afflict public housing in Boston). Nevertheless, public housing in New York is in pretty good repair and is fully occupied. (Salins does not, however, deal with one aspect of this interpretation that is most persuasive to me, that private housing cannot compete with heavily subsidized public housing in New York City.)

Is it red-lining, the fact that banks will not lend money for maintenance or rehabilitation? Scarcely. No one in his or her right mind would spend large sums for rehabilitation in the zone of destruction or in its pathway. Salins points out that buildings that have received, through government programs, heavy sums for maintenance and rehabilitation have been no more successful in resisting the general devastation. Indeed, one block of apartment houses in the South Bronx has been extensively rehabilitated, through public programs, *twice* in recent years, and at most recent report was suffering the signs that betoken abandonment and destruction.

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WHAT then is the explanation? Here Salins points to three interlocking policies in New York City. The first is that welfare provides a separate allowance for rent, based on need, that can be spent only for housing. Money for shelter is not included in the general welfare grant; it is received as a separate check, calculated on the basis of family size, and the amount of rent paid, up to some allowable maximum. This arrangement is found in only three other states. Why should such an arrangement have such disastrous consequences, one asks? It is scarcely possible to replicate Salins's subtle analysis, but the following seem to be the main points.

The rental allowance has kept up with or surpassed the rate of inflation since 1969 for smaller families, and has substantially surpassed it for larger families. Thus the rent that a welfare family can pay is hardly less than that paid by the average tenant in New York City. This encourages the welfare family to seek the best housing available at the maximum rent welfare will pay, and encourages the welfare family to "leapfrog" as far as possible from the zone of destruction.

Why would landlords rent to welfare families, as against stable working-class families? Because the fear of oncoming destruction is such that large areas around the present zone, and indeed some distance from it, are "soft," and are avoided by those families who can afford better. The landlord is also encouraged by the fact that at least the welfare tenant's *income* for rent is assured. But that doesn't mean the rent itself is assured. Non-payment of rent is an enormous problem (36 percent of welfare tenants are rent delinquent, Salins reports) because, in effect, there is no punishment for non-payment. Eviction, if it occurs under the difficult circumstances New York City law has established, simply means that the tenant is provided with moving expenses to another apartment, and is in no way penalized by the welfare grant for the rent in arrears. Indeed, there is a real incentive *not* to pay. One can use the rent money for other things, and one may, in a situation of spreading destruction, be able to move to an area the devastation has not reached. These circumstances encourage a great deal of moving by welfare clients in search of better neighborhoods and housing—28.5 percent of welfare families in a 1978 survey had moved into their apartments within the last year.

The landlord does have one means of redress: the two-party check for rent, which is only valid when signed by tenant and landlord. New York is unique in being allowed by the Federal government to issue such checks. Up to 20 percent of its checks may be of this type. One would expect (or could expect) the two-party checks to provide assurance to landlords, and stability of tenancy. Salins disagrees: The two-party check simply encourages landlords to accept welfare tenants, and this assurance increases welfare tenant mobility:

> Given any slackness at all in the housing market in the neighborhoods of the 'better' side of the concentration of welfare families (a slackness precipitated by the nonreplacement of nonwelfare families because of

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> the anticipation of neighborhood change), many welfare families will have an incentive to seek a better apartment. . . . Rising vacancy rates . . . pose an even greater threat to affected landlords than rent delinquency. In desperation such landlords will accept even the largest families or the most irresponsible ones, eventually driving out the most respectable tenants, even those on welfare.

The neighborhood declines further, and the process repeats itself as welfare families move on to find better housing. It seems that the key factor undermining the stabilizing power of the two-party check (which in any case cannot affect more than 20 percent of welfare tenants) is the social character of the welfare population itself. The concentration of social problems in these families (they are, by definition, mostly female-headed with young children) drives out other tenants, even if a mechanism can be devised to assure rent payments.

Salins also considers the effect of race, in particular the growing proportion of black and Puerto Rican families in the city. Only a minority of these are on welfare, but they are victimized in their search for better housing by the fear of white tenants who see the examples of previously devastated neighborhoods where poorer blacks and Puerto Ricans have moved in. Thus, even if middle-class minority families enter good areas, fears leading to move-outs or nonreplacement of white middle class families will lead to a softening in the housing market, with the consequences we have described.

Salins places these unique features of welfare in New York at the beginning of his analysis. Welfare families make up 15 percent of the tenants of New York. But it is not their numbers, it is the mechanisms by which they are provided shelter that to him are the major dynamic elements in housing destruction. Whereas in other northern and midwestern cities abandonment has been *less* than the decline in the number of households, these mechanisms explain why it has been two-and-a-half times as large in New York.

Two better known features distinctive to New York form part of the analysis. One is rent control, in its various forms and varieties. Two decades ago, when New York was healthy, the argument was that rent control led to poor maintenance and disinvestment. This is still true. The counter-argument was that it made it possible for the poor to enjoy better housing. Ironically, Salins argues there is some truth to this—rent control produces such an erratic and irrational rent pattern in the absence of a free market that the poor, specifically the welfare population, can enjoy housing in all but the best and most expensive areas, and thus they are encouraged to seek it. So rent control contributes to the basic welfare mobility pattern. "By keeping rents, even in the more desirable neighborhoods, arbitrarily low, rent regulation has permitted the widespread infiltration of public assistance families into middle class neighborhoods."

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Finally, there is the legal system under which rights of tenants and landlords are governed—also unique to New York City. Since 1973 and the creation of a housing court (which in New York City is biased in favor of the tenant), the collection of rent is linked to landlords' compliance with the housing code. These were once separable matters: Failure to pay rent led to eviction; failure to comply with the code led to fines. The two are now linked: Rent may be withheld and bargained over by tenants until compliance with the housing code is demonstrated. But the code is so complex there is always some degree of non-compliance. In addition, tenants can easily create non-compliance, if they are inclined to withhold their rent, by breaking windows, or stopping up toilets. Salins reports that this is common. Both by depriving landlords of necessary income and by encouraging damage by tenants the housing court system contributes to the destruction of housing. Salins does not discuss another feature of the housing law, the difficulty of evicting the troublesome or criminal tenant, regardless of his payment of rent. Tenants' rights have expanded generally in the wake of the "public interest law" movement. Ironically, after a court took over Boston's public housing and placed it in the hands of a receiver (as a result of a suit started by a public interest law group), the receiver's first request to the court was permission to evict tenants rapidly and to ignore a tenant protection code which had previously been imposed by the court at the request of the same public interest law group!

THESE, according to Salins, are the three major misguided policies which have created the massive destruction of good housing in New York City: the level and mechanism of rent payments by people on welfare, rent control, and the legal system that defines landlord-tenant relations. And the policies he proposes in an attempt to somewhat stem the flood is to incorporate the rental allowance into the welfare grant, to eliminate rent regulation in New York City, and to divorce considerations of housing maintenance and code compliance from the issue of eviction for rent delinquency.

The first is by far the most important. It means changing the welfare family into one for which housing costs are not a "free good" but are paid out of the welfare allotment, and eliminating a system in which the tenant is a fool not to move so as to get the highest rental allotment allowable. This would help stabilize welfare families, encourage them to make do where they are and with what they have, and reduce their indifference to damage of rental properties.

I hope Salins is right, for folding the rent allowance into the welfare grant seems to me, in the circumstances of New York City, an easier thing to manage politically than the elimination of rent controls and the reformation of the housing court. Basically he is depending on the self-interest of welfare families to so operate that, when rent must come out of the grant, their mobility and their impact on better neighborhoods will be reduced. I am not so sure

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this will work, but since such an approach is in line with most current thinking on welfare, whether Left or Right—which favors money with no strings attached, as against food stamps, rent allowances, etc., to allow the dependent family to make its own decisions—I am for it. Salins is quite open in admitting that this will lead to a greater degree of class separation. But he feels that class separation is essential to a more stable housing stock, and that the poor in any case did not have worse housing when they were anchored to poorer areas by a free market in housing and the absence of rent allotments. It is the present system that destroys their housing and their neighborhoods, he argues. And it is the ability to penetrate easily the stable working-class and middle-class areas of the city that has led to destruction far exceeding the numbers of families on welfare.

He also does give some attention to one feature that, I believe, has been crucial in the genesis and maintenance of housing destruction in the city: New York's enthusiasm for building subsidized housing, both for the poor and the middle classes. The building of huge, subsidized projects for the middle classes has sucked great numbers out of areas in the path of housing destruction, weakening housing markets and encouraging the acceptance of problem tenants who then drive out the more stable families. The building of heavily-subsidized projects for the poor has provided additional competition for private landlords. When these developments involve annual subsidies of the order of $6000 or $7000 a year per household, one can imagine how effective this competition has been. So in addition to his three policy proposals, Salins urges less subsidized housing.

He also warns against two current panaceas: two-party checks for all welfare families, and turning the vast quantities of housing that are now in city hands for tax delinquency (246,000 units, at the time of the writing of this book!) over to tenant cooperatives or community-based organization. Two-party checks simply encourage welfare family mobility. And even vast sums in subsidy poured into city-owned housing that has been abandoned by owners cannot affect the processes leading to housing destruction. Nor is it imaginable that enough tenant groups can be found or trained to take over any significant portion of the city-owned housing stock.

Regardless of how one evaluates Salins' analysis and proposals, he at least places before us, for discussion and action, to understand and deal with, a scandal to which we are becoming inured.

On another line of interpretation Salins is simply silent. This was the analysis made by Frank Kristof in the early days of the housing abandonment problem—that owing to high levels of crime, any softening in the housing market becomes a disaster because empty apartments are stripped by vandals, or moved into by drug addicts, or become in some other ways an accessory to crime, and thus encourage rapid abandonment by tenants. Certainly a full analysis must take into account the fact that these apartment houses are not only abandoned, but positively *destroyed* by human agents, and

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perhaps that analysis must also consider as one approach to this problem, not dealing with crime in general (who can do that?), but revising laws affecting arson and insurance to discourage the burning of the abandoned or half-abandoned buildings.

"Two hundred thousand apartments," Salins tells us, "have been destroyed within a decade. Another two hundred thousand are about to be, or are already, owned by the city of New York, and thus are in the pipeline to imminent destruction.[1] Half of one borough and large parts of two others present such a picture of destruction that, for the entire nation, if not much of the world, these areas and the city that harbors them epitomize the collapse of urban civilization. . . . How is this possible, after five decades of concerted effort at the amelioration of housing conditions and after the city, state and federal government have poured over *$10 billion* into the city's housing stock . . . and in the face of a public assistance program which, at a cost of over $500 million a year, picks up the entire rental tab, at levels near the citywide average for all rentals, for every eligible low income family in the city? This is not 1890, when Jacob Riss described, in *How the Other Half Lives*, a time of no housing subsidies, virtually no public assistance, no regulation of owners or rents. . . . However one analyzes it, explains it, describes it, or makes apologies for it, the ongoing destruction of the city's housing stock is a scandal."

So it is. It seems to me an equal scandal that New York City, with its great resources of intelligence and wealth, has been incapable of doing anything to stem this hemorrhage, and indeed has just about stopped talking about it, leaving it to French filmmakers to use as an apocalyptic symbol to replace Hiroshima. This is not a matter about which nothing can be done. If it is, what an awful judgment on our society.

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"Inside" Felix Frankfurter

ROBERT H. BORK

***H. N. Hirsch:* The Enigma of Felix Frankfurter.** *Basic Books. 253 pp. $14.95.*

THE performance of the Supreme Court is once more a national political issue. Among socially conservative groups, intense dis-

[1] Salins explains convincingly why this is so: The vacancy rate in city-owned buildings in February 1979 was 66 percent and rising, this despite the fact that the city paid no taxes on this property. The city was also demanding exemption from rent regulation, two-party checks for all welfare clients, and the right to concentrate tenants in the most viable buildings. So much for municipal socialism!

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satisfaction with the Court's rulings on abortion, busing, and school prayer have triggered legislative proposals. Some bills would deprive the Court of appellate jurisdiction over these subjects; another would modify by statute the result of the abortion decision, *Roe* v. *Wade*. Scholarly opinion is sharply divided about the constitutionality and propriety of these responses. On the one hand, it seems clear to many, not just the constituencies against abortion and busing, that the Court is adrift and frequently performing not a constitutional but a legislative function. On the other hand, it is not clear to all of those same observers that the situation is so irretrievable that remedies should be applied which, in principle, threaten the entire concept of judicial supremacy in applying the Constitution. Anger, particularly about the abortion decision, is so great, however, that there is a chance some legislation of this sort will be enacted. It is entirely conceivable that we are headed for a constitutional crisis, a confrontation between the democratic and judicial branches of government.

It is well to remember both that the Court has frequently stirred political anger—Thomas Jefferson and Franklin Roosevelt made serious assaults upon the judiciary's independence—and that this historical fact by no means justifies the Court's performance or lessens the legitimacy and seriousness of today's political countermoves. The real problem is that there exist almost no useable mechanisms by which the Court can be kept within constitutional bounds. Use of the Exceptions Clause of Article III of the Constitution to remove appellate jurisdiction, plus a simultaneous removal of jurisdiction from the lower federal courts, would not return power either to Congress or to state legislatures but to state courts. The result would not be a restoration of democratic goverment to subjects over which it rightfully claims dominion, but, rather, continued judicial government by fifty state systems. There could be no hope of uniformity. Amending the Constitution is not a general solution to judicial expansionism; there are too many serious judicial excesses to make amendment a feasible tool of correction. The problem is that the framers of the Constitution, while they foresaw that the Court would review laws for constitutionality, did not remotely foresee what that power was capable of becoming, and provided no institutional check, no safeguard, against a judiciary that expanded its powers far beyond the allowable meaning of the Constitution. The only safeguard we have at the moment is the self-discipline and capacity for self-denial of our judges. That, to put it mildly, has not always proved adequate.

THE ENIGMA OF FELIX FRANKFURTER by H. N. Hirsch helps to put the problem in historical perspective, to remind us both that judicial imperialism has long been with us and that countering it without undesired damage to the courts is no simple task. Throughout his career, Frankfurter struggled with problems posed by judicial supremacy. Before going on the bench, he worried and wrote

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about how to check the run-away Supreme Court of his time. As a Justice, he had continually to face the difficulty of how to adjust the often vague but real demands of the Constitution and the legitimate claims of popular self-rule. He never found a wholly satisfactory answer to either question.

Though he was disenchanted to the point of fury with the Court's performance in the first third of this century, Frankfurter resisted institutional rearrangements, such as Robert LaFollette's proposal of a constitutional amendment that would permit Congress to override a Supreme Court decision by a two-thirds majority. He said, "The only reliance rests on the quality of judges and the temper and training of the bar." "We must look," he wrote in 1921, "to broader and more conscious legal education." Perhaps Frankfurter was right about the inadvisability of formal mechanisms for checking the Court, though; since none have been tried, that is hard to say. But his hopes for legal education, after fifty years, certainly seem misplaced. Today, in fact, it is probably true that most professors of constitutional law teach and write from an activist perspective. What the solution should be is no more clear now than it was in 1921. If it is not to be a new constitutional mechanism, the answer can only lie in the selection of judges, which means that the solution will be intermittent, depending upon the President's ability to choose well and his opportunities to choose at all.

Frankfurter was more successful, though by no means completely so, in his effort to demonstrate the behavior proper to a constitutional magistrate. If, as Alexander Bickel said, Frankfurter "never achieved a rigorous general accord between judicial supremacy and democratic theory, so that the boundaries of the one could be described with some precision in terms of the other," at least Frankfurter strove for that accord. All too many of the men with whom he sat solved the problem by ignoring it and voting their politics. Frankfurter knew that the accord Bickel describes is the central problem of constitutional law. It was his duty never to elide it, no matter how intractable the dilemma remained, and he rarely did. He struggled with the issue of the limits to the Court's legitimate authority conscientiously and articulately, with considerable intellectual and moral valor, and, over the span of his judicial career, with significant, if also significantly flawed, success. On this ground alone, he deserves a better reputation than he is currently given.

It was Felix Frankfurter's tragedy that he turned out to be a transitional figure on a Court he wished to lead. For years prior to his appointment, he denounced the bad, old Court that imposed its political will by striking down state and federal economic regulation. He knew that the Constitution did not compel or even guide the majority in its course. When he went on the Court, the old majority had broken up and Frankfurter wished to lead the institution to a policy of judicial self-restraint. But Franklin Roosevelt appointed other Justices, too, among them Hugo Black and

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William O. Douglas. These were men prepared to enforce their social views through the Court as if it were a supreme legislature. The conflict between them and Frankfurter was irrepressible and became bitter. The choices made by later presidents—some of whom must have been amazed at what they turned out to have chosen—and the accidents of mortality strengthened the Black-Douglas wing, and in time produced the Warren Court, the least restrained in our history. Frankfurter was reduced to eloquent and often despairing dissents, and before he died he watched the opinions he had written rejected one by one and expunged from our jurisprudence. The victory of the activist, legislative mode of judging may not be permanent but it has lasted to this day. Frankfurter, instead of being remembered as a jurist who led an intellectual counter-revolution, has become a jurist to be "explained."

One explanation is now offered by H. N. Hirsch in a book which is considerably better than it intends to be. Mr. Hirsch, an assistant professor of government at Harvard, has written a psychobiography, saying: "For those who find the use of psychological theory as a tool of interpretation unsettling, I ask only for a suspension of disbelief until the evidence is presented." In my case, the suspension was granted, the evidence was considered, and disbelief was reinstated. The Hirsch thesis is that Frankfurter's career is comprehensible only if we understand him as "representing a textbook case of a neurotic personality; someone whose self-image is overblown and yet, at the same time, essential to his sense of well-being." Though the word "neurotic" seems to have unnecessarily pejorative overtones as applied to Frankfurter, there can be little doubt that his exalted view of himself, his resort to flattery, even to sycophancy, his arrogance and manipulativeness make it difficult to warm to his personality, at least for those never the target of his very considerable charm.

But that is not the nub of the matter. Few people are interested in Frankfurter's personality, at least not as a subject in itself. The nub is Mr. Hirsch's claim that Frankfurter's neurosis was such that when "confronted, late in life [on the Court], with a serious challenge to his self-image, he reacted in a manner affecting both his relations with his colleagues and the content of his jurisprudence." That is a strong claim. Unfortunately (for the author, not the Justice), it is not proved. Mr. Hirsch is quite good at analyzing the difficulties and contradictions in Frankfurter's constitutional philosophy, but unpersuasive in linking those difficulties and contradictions to Frankfurter's allegedly "neurotic" personality or to the challenge to his self-image he met on the Supreme Court.

MR. Hirsch's psychological argument is not easy to follow. He claims that Frankfurter chose Holmes's rather than Brandeis's version of the doctrine of self-restraint, although he also claims that Holmes's position was "both confused and contradictory" so it is difficult to know precisely what the choice entailed. Brandeis's

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version, moreover, involved less self-restraint where civil liberties were involved. Frankfurter, as the author points out, was inconsistent as a jurist because, while denying any preferential ranking of constitutional values, he did prefer the values of separation of church and state, academic freedom, and racial integration. Perhaps Frankfurter was closer to Brandeis's position than Mr. Hirsch allows.

In any event, the psychological reason given for the supposed choice of Holmes over Brandeis, as well as for Frankfurter's misunderstanding of Holmes, is wholly implausible: "It was Holmes—not Brandeis—who personified for Frankfurter the Brahmin establishment. Agreeing with Holmes meant agreeing with that world; being accepted by Holmes meant being accepted by that world. Frankfurter 'needed' Holmes psychologically in a way that he did not need Brandeis . . ." It seems odd, even perverse, to impute that motivation to a man who had shown every willingness to infuriate the "Brahmin legal establishment" by, among other things, attacking the convictions of Sacco and Vanzetti and Tom Mooney, denouncing the deportation of strikers in Bisbee, Arizona, and vigorously supporting the appointment of Brandeis to the Supreme Court (an appointment that was very unpopular with the legal establishment).

Because Frankfurter had an inflated self-image and was opposed by the liberal wing of the Court, Mr. Hirsch concludes, the Justice hardened his ideological stance, refused to rank constitutional values, committed himself to judicial deference, and lost whatever chance he might have had to work out the contradictions in his own jurisprudence. Yet aside from talk about neurosis and self-image, it is quite understandable that a man might fail to work out inconsistencies in his philosophy. Most men, including most Justices of the Supreme Court, fail to do that. One can certainly find unresolved inconsistencies in the thoughts of Holmes, Brandeis, Black, Douglas, and Murphy, to mention only a few of Frankfurter's friends and enemies. Must we really await a series of "Enigma" books in which a psychological explanation is given for each of these men? It may well be that Frankfurter, being embattled, could not rethink his position. That is a common phenomenon and does not require an elaborate psychological apparatus to explain it. It may even be that the Court is not a particularly good place for rethinking philosophies. Cases and subjects came up in almost random order and the press of work is heavy so that rethinking, really rethinking, an entire philosophy must be next to impossible. The Justice must usually live on such intellectual capital as he already possesses, rather than accumulating more.

WHEN one strips away Hirsch's psychological framework (which is advisable), what remains is a rather good short biography of a major figure in the law. Hirsch perceptively, albeit briefly, discusses Frankfurter's courtship and marriage, his years as a professor

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at the Harvard Law School, his career in government, his involvement in liberal causes, his relationship to Stimson, Holmes, Brandeis, the two Roosevelts, and much more. These subjects are not fully explored, however, because they are used only to support Hirsch's dubious psychological thesis. That is a pity. One suspects that Mr. Hirsch is much more in political sympathy with Frankfurter's liberal opponents on the Court than he is with Frankfurter. In moments of darker suspicion, one may even flirt with the idea that this is the reason Mr. Hirsch finds Frankfurter an enigma and chooses to explain his judicial philosophy as the product of neurosis, at least in major part. But that aside, the book contains much interesting and intelligently-handled material about Frankfurter as well as a brief but clear exposition of his juristic stance and the problems it poses. It might have been better if Mr. Hirsch had outlined the even graver intellectual deficiencies inherent in the Black-Douglas stance so that the general reader would have understood that very considerable issues of government and legitimacy were at stake and that there were better reasons for Frankfurter's anger than threats to his self-image.

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The Helping Hand Strikes Again

BRIGITTE BERGER

Jessie Bernard: **The Female World.** *Free Press. 614 pp. $19.95.*
Sheila B. Kamerman: **Parenting in an Unresponsive Society.** *Free Press. 196 pp. $13.95.*
Sheila B. Kamerman and Alfred J. Kahn: **Child Care, Family Benefits, and Working Parents.** *Columbia University Press. 327 pp. $25.00.*
Halycone H. Bohen and Anamaria Viveros-Long: **Balancing Jobs and Family Life.** *Temple University Press. 336 pp. $19.50.*
E. Robert Livernash, ed.: **Comparable Worth—Issues and Alternatives.** *Equal Employment Advisory Council, Washington, D.C. 260 pp. $21.00.*
Gilbert Y. Steiner: **The Futility of Family Policy.** *The Brookings Institution. 221 pp. $15.95.*

In the war that is currently waged over the American mind, the family, no doubt, plays a pivotal role. It is here that today's most controversial issues—human sexuality, teenage pregnancies, abortion,

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gender roles, women's rights, socialization and education of children, their care as well as that of other weaker members of the family—are turned into fierce strategic battles that go well beyond their proclaimed causes. In so far as these and related matters are no longer held to be primarily of individual concern and personal responsibility, but have become public issues demanding public attention and governmental action, the family has been politicized to a degree heretofore unknown in American society. A monumental avalanche of publications attests to the degree of politicization, just as it attests to the futility of attempts to solve, through political mechanisms, symptoms of problems whose causes are only dimly perceived.

There is today literally no aspect of the once private domain of family life that has not been analyzed, re-analyzed, and (perhaps) over-analyzed. The number of publications selected for review here serves to give an idea of the flavor, the temper, and the complexities of the public discourse that is now going on.

The political dimension of the family received a novel thrust when, less than two decades ago, it became the target of a series of highly-politicized intellectual movements—the New Left, feminists, cultural relativists, populationists, sexual libertarians, and the like. Adversary headlines such as "The Death of the Family" (Cooper), "Marriage is Hell" (Perutz), "The Baby Trap" (Peck), and "The Female Eunuch" (Greer) were flaunted angrily from every newsstand. Today, however, some twenty years later, such shrill titles and headlines seem to be neither fashionable nor marketable. Gone, too, are the linguistic inflations and the strident rhetoric of earlier feminists. The language battle is over—or so it seems. "Inclusive" language is currently unchallenged dogma.

For example, a less strident and more ardent feminism seems to be on the ascent. Jessie Bernard, feminist of long standing, has always appeared to be a particularly appealing representative of a calmer, more reasoned, though tenacious feminism. Hence her most recent book, *The Female World*, seemed—at first sight—well suited to supply the standards for today's more reflective feminists. At second sight, however, I am afraid that more disquieting questions are asked than answered by her treatise.

Bernard seeks to establish and demonstrate the existence of a distinct female world in and of itself, "an entity in its own rights, not as a by-product of the male world". Her daring endeavor is based on the premise that all human beings—men and women alike—live in a single-sex world, characterized by different experiences of the world, governed by different norms, rules of behavior, and expectations. This underlying premise, upon which her whole enterprise rests, puts her into the mainstream of those feminists who seek a "new psychology of women." In the 614 pages of *The Female World* the attempt is made to supply a more sociological frame for the characterization of the world of women, its sphere, its social

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structure, its psychological dimensions, its culture, economy, polity, and ethos.

Throughout this book Bernard makes much of the "all-pervasive misogyny" allegedly inherent in the male world: "When we say . . . that the male world does not like women, we mean that its norms permit, encourage, even prescribe behavior that is hostile to women." Reminiscent of earlier days, she embraces as well the type of animosity against the "catastrophic" effects of the capitalist system upon women, which in the hands of ruthless males exploits and destroys the *Gemeinschaft* ethos of the female world. She also derides and challenges the love-duty ethos of traditional female culture, the common target of feminism's more strident period.

There are occasionally intriguing arguments as well as a host of surprising information to be found in *The Female World.* Who, for instance, would have guessed that "the average married couple in the United States spends only about twenty minutes a week in direct conversation with each other" or that "women with only an elementary school education tended to show more son preference than other women." And I am genuinely impressed by Jessie Bernard's unflagging enthusiasm for what she thinks is the women's cause. However, some care needs to be exercised in asserting that females possess, or should possess, a singular identifiable culture by virtue of the criteria selected by Bernard.

No doubt male-female relationships are full of tensions and undercurrents—but so are all human relations. As Doctor Johnson, that unsurpassed observer of human passions, so wisely said, "Marriage is not commonly unhappy otherwise than as life is unhappy." Judging by Bernard's book, separating out what is life and what is marriage continues to be the single most confounding difficulty of feminism.

To be sure, women do have some real grievances and these need to be addressed. But to construct a theory of culture out of resentment and grievances is a rather dubious undertaking. This kind of theorizing is far removed from the everyday realities of women and men . . . and their children. We hear surprisingly little about children in Bernard's book! This may not be accidental, I am afraid. In *her* women's world, children have no place, no part, no meaning. She perceives a female world free of parents, spouses, and children.

But in the real world, men, women, and their children define each other, just as they in turn are defined by their families and their family relationships. Within the culturally-produced social institutions of marriage and family, human beings attempt to give coherence and continuity to their existence, and meaning to their lives. Indeed, the overwhelming majority of Americans today continue to confirm the singular significance family life has for them. If we are to trust survey research, a new emphasis upon more traditional family arrangements—that is to say, those that emphasize

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the interdependence of women, men, and children, and not their segregation—is a top priority for a great many ordinary Americans.

Themes of this kind that continue to define American culture, present unhappy reminders to many feminists of a past to be overcome. Data confirming traditional practices are conveniently ignored so that undivided attention can be given to any and all data that lend themselves to the substantiation of old grievances. And this, to me, is a real pity. For in taking this line of argument, Jessie Bernard's *The Female World* demonstrates that, in its more ardent form, feminism continues to agitate for the ultimate dismantlement of the family. Bernard's book is likely to find wide acclaim in the many women studies programs that are presently proliferating on the nation's campuses. Insofar, however, as this kind of abstract rhetoric of "New Class" professional feminists is in direct and dramatic contradiction to the continued social practices, values, and hopes of ordinary Americans, the future does not augur well for these women.

By far the majority of the 1980-1981 crop of publications on family and related issues is concerned with public policy questions. This is not surprising. After Jimmy Carter expressed his personal distress over the "steady erosion and weakening of our families," and made his political commitment to take government action in this moment of national "crisis," a huge and rapidly expanding Family Policy Industry mushroomed. Today, in the post-Carter era, we are witnessing the fall-out of the Carter commitment in the form of policy publications on the family.

A central and widely accepted theme common to most of these publications has to do with "the erosion and weakening" of the family and the presumed devastating effects of this process upon individuals and society alike. It is maintained that an ever-growing number of individuals are today without the support traditionally provided by families, and are now in need of new, governmentally-designed, supplied, and financed intervention programs. Weaker members of society—young children, the sick, the old, the handicapped, but also the phenomenally growing number of young children of divorce as well as their mothers—have become a favorite target of policy advocates. In other words, a large part of today's public policy-making is concerned with consequences of the vision propagated by feminists like Jessie Bernard.

The large number of young children of working mothers—held to be a novel American phenomenon—tends to attract particular attention. This group and their "needs" are the subject of Sheila Kamerman's *Parenting in an Unresponsive Society*. This clearly written, though somewhat repetitious, book by a veteran analyst and advocate of government policies for the family, includes a summary of a three-year study of working mothers in "Maplewood County" (a suburb close to New York City), an inquiry into household gender roles, as well as an indication of the availability of informal support systems. It works up "Toward a Policy and Program Agenda for

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Working Parents." In an "Epilogue: What Do Other Countries Do," the American situation is compared to the social policies of Sweden, France, and the Federal Republic of Germany.

Sheila Kamerman's diagnostic findings of the American situation can be summarized in one sentence: Just as American society has sadly failed to recognize publicly the needs of preschool children and their working mothers, so has American public policy ignored and neglected this large and growing segment of the population. Her policy recommendations are predictable: a family allowance, paid maternity or parental leaves, paid sick leave for parents with small children, greater use of flexitime, part-time employment, shared jobs, but above all an expansion of publicly-subsidized preschool programs, including infant and toddler care as well as supplementary programs for school-aged children.

WHAT are we to make of this seemingly well-documented, well-argued, and well-intentioned book? I am inclined to agree with its author's own assessment: "Nothing we would say here is original or unique." She has, in the main, given further evidence and supplementary documentation to a phenomenon thought to be of considerable significance and great urgency by a number of earlier analysts, such as those published under the auspices of the Carnegie Council on Children. It confirms some—though by no means the most significant—findings of Mary Jo Bane's *Here to Stay*. Above all, it reinforces what has by now become part and parcel of the liberal left's agenda for the American family, namely to declare it to be an "endangered species" and to respond to this "crisis" through the institutionalization of further governmentally-sponsored services, programs, and agencies.

In the minds of their advocates, these so obviously beneficial programs are claimed to supplement and shore up the "endangered" family. In the minds of their critics, interventionist programs of this kind unnecessarily erode family functions even further and thus add to that process of disempowerment of individuals and their families that has caused considerable discontent for some time. In the minds of the critics, the foremost problem of the family today is: How can it survive its new champions?

Many troubling questions arise from Kamerman's diagnosis as well as from her prescriptions. Within the context of this review, however, I wish to single out two more general problems that crop up from this type of advocacy on behalf of the family.

As Kamerman repeatedly states—and to my mind correctly so—by far the majority of women with young children are motivated to work by a desire to increase their economic options. This greater economic freedom, it is hoped, will provide a greater degree of *independence* in their private lives—lives in which the family, above all, plays the central role. If in progress towards this ultimate end, however, policy advocates like Kamerman come along and propose mechanisms and programs that essentially rob families of even more

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of their functions and autonomy, the very reason why individuals undertake such extraordinary efforts may well be destroyed. In the meanwhile the family may be torn asunder by "friendly intruders" who, with eager hands, set into motion forces of an altogether different kind. A further unavoidable consequence of this kind of policy-making will be the establishment of bureaucracies and professional empires which depend on the problem becoming ever more pronounced. In other words, advocacy on behalf of the family, if looked at in this way, becomes advocacy for its ultimate destruction.

Moreover, it puzzles me how, in the light of the dismal past performances of such programs and services, their advocates can continue to promote solutions to perceived problems that imply not much more than proliferation of the very same programs. The phrase "the helping hand strikes again," which is currently gaining in popularity among a new brand of minority leaders, reflects well the ironies contained in Kamerman-like proposals. American minority and ethnic groups, in particular, will be very reluctant to sign over their young children to programs they have no reason to trust in the first place. It is rather doubtful whether the merits of some of Kamerman's proposals (e.g., some form of family allowance) can balance out the general thrust of her whole advocacy. In ignoring the practices, values, and hopes of a great variety of Americans, in neglecting policy mechanisms that allow for a maximum number of choices for all Americans, choices that will give more autonomy to individuals instead of finally sealing them into their dependency, Sheila Kamerman's policy proposals have no less and no more merit than other similar ones that have surfaced during the past years.

In yet another book on the same theme, *Child Care, Family Benefits, and Working Parents—A Study in Comparative Policy,* Sheila Kamerman, this time in co-authorship with Alfred Kahn, addresses the very same policy issues from a somewhat different angle. By contrasting family policies in six countries—the United States, France, Sweden, West Germany, East Germany and Hungary—Kamerman and Kahn establish themselves once more as a most indefatigable two-person multinational research enterprise advocating government intervention in family affairs. And again, the growing number of women in the labor force, especially those with young children, is in their view *the* major family policy issue in Europe and the United States for some time to come. While the detailed description of policies and services in these six countries is the official manifest purpose of the study, the real purpose is to expose the unresponsive and irresponsible "do nothing" approach of the United States in the face of such monumental changes in life style.

In setting up the inadequacies of America's "non-policy," this survey and discussion of the extensive and concerned policy strategies of the selected European societies seems ideally suited to provide ample ammunition for the pro-intervention camp in the United States. Again reminiscent of recommendations flowing from earlier

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studies, Kamerman and Kahn insist that to study day-care needs of children of working mothers in isolation from other needs avoids the real issues. Their new and broader focus is reflected in recommending a "benefit-service package" policy that combines the income needs with the employment needs of adults, and both in turn with the care and nurturing needs of children. Again, it all looks so simple and so convincing. The United States and in particular certain "unresponsive groups" come out as the real villains in the war over the family.

But one must remain concerned with the way American researchers assume that the (mostly official) data gathered in their flat, descriptive, and ahistorical accounts adequately reflect the social and individual realities of European societies. Let me illustrate my misgivings by one example. Among the countries included in the survey, the GDR (German Democratic Republic, or East Germany) and Hungary have the largest proportion of women in the labor force. These two countries can also boast of comprehensive benefit-service packages for families with working mothers. Hungary and the GDR, like other Communist countries that are under the pressure to industrialize, are faced with a dual problem. On the one hand, there is a very limited reservoir of individuals who can be recruited to work in the expanding industrial labor force. On the other hand, there has been—for very understandable reasons—a remarkable decline in the birth-rate. In the absence of other realistic options, these governments are forced to push those untapped labor reserves, like women with young children, into industrial work. In order to assure the future of their societies, they also celebrate "noble motherhood" (a somewhat unfortunate term in view of its role under Nazism) through prenatal programs.

The official (and, by the way, the *only*) publicly-accepted model for women in societies like these is that of childbearers and workers. Maternity benefits equaling some $300 in the GDR and some $100 in Hungary fail to impress when one takes into consideration the scarcity of consumer goods and the exorbitant costs for household goods on the grey market, just as the monthly child allowances (not much more than $10 monthly in either instance) are not that impressive either. I am particularly unimpressed when I compare all these extensive "benefits" reported by Kahn and Kamerman with some 1979 East German publications that describe an altogether different reality. Frequently, placement of very young children into public care is unavailable; mothers, admonished to work, then have to place their children into facilities where the costs far exceed the special allowances the government provides. What becomes so dramatically clear is that in societies like these, where neither men nor women have many options, women are even more limited by the dual commandment to work and to bear children. I fail to see how countries like these can serve as models for America.

In reading Kamerman and Kahn's survey of European approaches to family policy, I am struck by their underreporting of the inter-

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nal debate in these societies. Missing is any consideration of the special problems of the very large number of "guest-worker" families in societies like West Germany, France, and, yes, Sweden. One does not have to be a professional policy surveyor to discover, even in a very brief visit, the existence of a considerable guest-worker underclass whose needs and problems are so conveniently neglected in the orderly and shining official reports. Gypsy children in Hungary; the increasing trend *away* from public services and education in societies like West Germany where public education once was the unquestioned norm; the search for alternative policies in Sweden; and many similar current issues—all reflect a quite different reality as experienced by the individuals living in these societies. These data could presumably weaken the case our authors wish to make. Unreported, they distort reality and with it the service to comparative research Kahn and Kamerman *could* have made.

One concrete proposal in Sheila Kamerman's policy agenda involves the greater use of "flexitime." We are fortunate to have available to us a detailed study on precisely this proposition. In *Balancing Jobs and Family Life—Do Flexible Work Schedules Help?*, Halycone H. Bohen and Anamaria Viveros-Long compared 700 workers in two federal agencies in Washington, D.C., a comparison that permits us to evaluate the effects of flexible work schedules on family life.

This book is worthy of our attention for a variety of reasons, not the least being the candor of its authors. Addressing some of the trickier questions of policy analysis, such as the possibility of making statements on the impact of public programs on the family they write that "conceptual and measurement problems are so elusive and complex that it seems impossible to assess, in a comprehensive and exact way, the family impact of even a few of the multitude of policies that touch American families." I am glad to see a more sober mood making its entrance into the field of policy making. More importantly, we finally have here an empirical experiment to test if the use of flexible time schedules in work will have beneficial effects upon family life. It is a proposition to which I personally am quite partial. I am sorry to report, however, that the results of this specific study are—at least in the eyes of the authors—not encouraging, nor does this study portend well for other similarly targeted policy proposals.

Much vexed by the elusive character of the subject and sobered by the complexities of formulating an adequate theoretical framework to permit researchers to arrive at clear-cut statements, Bohen and Viveros-Long come to the conclusion that "flexible work schedules of the sort examined in this research cannot alone make significant differences in the work-family conflicts of employed parents." Flexitime, in brief, does not seem to make much of a difference one way or the other. On the one hand, working women continue to carry the larger share of the burden in the care of children and

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household, and are often prevented from becoming as absorbed in work and career as men do. On the other hand, men—who appear to be, by and large, "fair" and willing—seem to find it more difficult to become more involved with the traditional household tasks of women. It is important to note that in the views of the women interviewed their continued lower achievement in the workplace is less due to discrimination than to the fact that they *chose* less-demanding jobs in favor of being more involved with their children and family. (Bohen and Viveros-Long, like the majority of similar analysts, are inclined to deplore this tenacious streak in American women who cling to such traditional priorities.) In their final assessment, flexitime is but "an important first step towards altering the traditions in which work roles and work organizations have been defined and structured as if the family did not exist."

THE authors may well have been sobered—as they repeatedly state—by the complexities of their assignment and the elusiveness of their results, yet they have not been sobered enough to avoid falling into handy cliches about intervention advocacy. At the same time it becomes apparent that the use of flexitime in the alleviation of pressures in working families is not the real concern of the authors. For them—although not for many of the women interviewed—parity in career achievement is the supreme end. And if all mechanisms that have been tried, including that of flexitime, seem to be unsuited towards this end, then the organization of work itself must be altered. They seem to be groping for a recipe in which the very system of production that has provided such extraordinary options for women in the first place must now be changed. As observed before, this kind of policy advocacy for the most part serves interests that have rather little to do with the family.

In this context it may be worthwhile to note—though briefly and somewhat summarily—that the continued discrepancy between male and female earnings is an issue likely to take on increased significance in the 1980's. It certainly is foremost on the liberal agenda and received solid support from editorial writers of the liberal press. As the empirical evidence begins to mount that wide-ranging efforts —both voluntarily as well as governmentally-defined and enforced— are beginning to have undeniably positive effects on women's and other "minorities'" opportunities for equal employment, the issue of "discrimination in employment" no longer is the fashionable topic it used to be. The Equal Employment Opportunity Establishment, along with some women's rights activists, are therefore inclined to take the struggle into new—and to my mind inordinately complex and perhaps even perilous—directions. Under the catchword "comparable worth" a new movement is about to be formed. Proponents of comparable worth argue that in so far as relatively low rates of compensation have been established within the free market for those types of jobs predominantly occupied by women—regardless of their inherent worth to society—women have historically suffered discrim-

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ination. What is missing is a device that is capable of measuring and assigning a numerical worth to all types of jobs, so that jobs which are dissimilar can be compared and their pay rate analyzed for possible discrimination. Once this has been accomplished, established governmental agencies will have to intervene to correct historical discrimination. In the recently published volume *Comparable Worth: Issues and Alteratives,* under the editorship of E. Robert Livernash, seven nationally known academic and legal experts present us with meticulously argued, impressively informed, and mostly rather technical essays that draw our attention to the complexities and possible ramifications of a measuring system that has yet to be devised.

The thrust of Title VII of the Civil Rights Act of 1964 was to eliminate discrimination by assuring, among other things, equal treatment in job *mobility*—that is, equal *opportunity*. In making certain that full mobility is available to all, Congress felt that the effects of past discrimination would gradually be eliminated. The present shift in this agenda, spearheaded by the enforcement agencies, involves much more than that. Rather than awaiting the full effects of equal opportunity measures, they now seek the immediate elimination of what they think are the effects of possible past discriminations. Guaranteed equality, measured by numerical equivalency in the number of jobs held by women as well as governmentally-established and negotiated parity in the levels of compensation received (regardless of their current value in the market place), is the new order of the day. Although it is very doubtful that the gap between the male and female average wage is attributable to discrimination, and although the theoretical insufficiencies, the technical imponderables, and the legal ramifications of it all boggle the mind—as documented with excruciating care and in great detail by the seven experts in *Comparable Worth*—advocates of radical transformation of our present economic system continue to demand an elusive equality. The costs that would result from disrupting existing methods of determining compensation (in one estimation a staggering $150 billion a year would be added to civilian payrolls), are particularly preposterous in today's troubled economy, yet they are glossed over by proponents of comparable worth. As Edmund Burke observed several centuries ago, those who destroy everything are certain to remedy *some* grievances.

In considering these five books and the course of the war over the American family in recent years, one is left with a sense of depression. To be sure, few still believe in the possibility of a perfect, or even "great," society. The revolutionary climate of the 1960's has given way to an almost touching faith in the beneficial effects of an ubiquitous government's interventionist programs. Yet curiously enough, the very intensity of the various arguments towards this end increases one's sense of their being dated, if not obsolescent. The public discourse in America has entered a new phase. Issues of

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an altogether new kind—practically unnoticed by our authors—have gained a central place in the minds of ordinary Americans. If one were to be guided by these and other similar books which flood the market, one would be quite oblivious to realities of American life. I am, therefore, gratified to be able to conclude with a brief discussion of a book that, to my mind, is uniquely suited to rectify the one-dimensional image of family life that is so commonly presented to us.

Few writers today are as qualified as Gilbert Steiner in policy matters related to the family. Steiner, a senior fellow in the Brookings Governmental Studies program for many years, presents us, in his most recent book *The Futility of Family Policy*, with policy analysis at its best. Coolly and dispassionately he sets about the task of demonstrating that the American political system, far from being indifferent to children and their families, has responded (and perhaps over-responded) to the "intractable problems" of family life—in that it sought political solutions to problems that cannot be solved politically. In this sense *The Futility of Family Policy* is an impressive lesson in the danger of politicizing questions that cannot be dealt with politically.

As a veteran government-watcher, Steiner chronicles the politics of family policy during the Carter years culminating in the somewhat tumultuous White House Conference on Families. He recounts the "evolution of a political theme"; he embellishes the absurdities and vagaries of a huge family policy industry in search of a definition; he describes and analyzes the complexities of some persistent, and some self-created, problems; he gives us an understanding that there are as many "just causes" as there are votaries. In sum, he reviews the many ironies involved in the process by which family policy became a fad in American social policy. He deplores this, for there are real problems and issues that need concern and redress which have been glossed over because of this process.

There are many lessons to be learned from Steiner's lucidly written and well-reasoned book. His post-mortem on the creation of the data base and its political use, from which proponents of domestic violence sought to establish their claims for government intervention, is absolutely staggering. It should be required reading for any student of policy analysis. I would wager that at the end of this fascinating book it will be difficult, even for the most committed family policy advocate, not to agree with him when he concludes that the major consequence of the Carter administration's commitment to turn the "crisis" in the American family into a national cause did not serve American families well. And with him we learn to concur with the wisdom of Nathan Glazer's observation that social programs that respond to a weakening in social structure invariably weaken the social structure further.

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Pentagon Wastage?

LAURENCE E. LYNN, JR.

James Fallows: **National Defense.** *Random House. 184 pp. $12.95.*

FOR nearly two decades, a group of dissident defense intellectuals has been thriving in the penumbra of major national defense debates. Not really an underground, the group includes both civilians and military officers—and some who have been both—who are or have been associated with the Defense Department or with influential U.S. senators and congressmen. Their shared distinction is their attitude toward national security issues, particularly the design and procurement of major weapon systems. They are iconoclasts, determined critics of mainstream thinking in the military services and in the defense research and engineering community. They are relentlessly empirical—indeed, anti-theoretical—collecting data from the real world of combat and from realistic military exercises, poring over it, searching for serviceable truths in the actual experiences of fighter pilots, infantry soldiers, and submarine skippers. They are smart and inventive, faithfully translating the truth they discover into ideas for new or improved rifles, aircraft, ships, and missiles which, they insist, unlike the weapons conceived by the mainstream research and engineering community, will enable American troops to defeat enemy forces in combat. Articulated, the group's credo would be, "when in doubt, build it simple, rugged, reliable, and maintainable," but in general they scrupulously avoid becoming doctrinaire. They are often right, or, more accurately, they are often persuasive; because they don't win many debates over how weapons should be designed and procured, evidence to justify their claims is sparse.

James Fallows, Washington editor of *The Atlantic*, has discovered the dissidents, and in this sympathetic and valuable (though flawed) book he brings their views before the much wider audience they deserve. He wrote it, he says in the introduction, "to give the general reader better ways of thinking about defense." But I believe he has a more compelling purpose, which does not become clear until the book's concluding pages. He wants to convince an influential audience—such as Norman Podhoretz, Senators John Warner and Henry Jackson, and Eugene Rostow—that they should abandon the mindless proposition that spending a great deal more for defense will necessarily make America stronger. His approach is to show them, by example, the costly mistakes that have resulted from allowing the doctrinaire, technology-obsessed military-industrial complex to proceed unchecked by thorough consideration, common sense, and a practical feel for combat. He hopes to convince these select readers that they should not mistake procurement for de-

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fense, that they should know better, that they should think harder. It is a timely book.

MAKE no mistake—this is not Richard Barnet or Paul Warnke arguing the obsolescence of military force in the foreign policy of the future. Fallows makes a simpler, more practical point: The weapon systems the Army, the Navy, and the Air Force say we need for the security of our people and the protection of our vital interests do not provide much security. They are so complicated that they break down constantly and are an expensive nightmare to maintain. Their operation is based on ludicrous assumptions about how soldiers will actually behave in combat. Powered solely by an obsession to maintain technological superiority over the Soviet Union, the designers of these systems have ignored the lessons to be learned from the experience of soldiers of many nations in modern warfare. These mistakes, Fallows believes, are unforgivable and unbelievably costly, not only in dollars but in lives. What we need instead is a procurement philosophy which "places a premium on simple, reliable, flexible tools that can be produced quickly, whose functions can be adapted rapidly in response to changing tactics, and that do not depend for their effectiveness on narrowly defined, fixed circumstances."

Fallows makes his case in chapters that are readable, informative, and appealing. He draws on anecdotes about how weapons have been developed, on findings of obscure but revealing studies, and on interviews with members of the dissident fringe as well as with those in the mainstream; he then shows that the absence of skepticism, common sense, and humility in the face of obvious and unavoidable uncertainties concerning how and where the wars of the future will be fought produces procurement fiascos that are the trademark of Pentagon management.

The designers and makers of "the magic weapons," for example—the engineers and scientists in the weapons research and engineering culture—have built the relatively simple F-5 fighter but prefer the exotic F-15, which costs four times as much but produces only *one-tenth* as much capability (one-tenth as many actual combat missions per day) as the F-5 for every million dollars spent. What do we get with the F-15 that we don't get with the F-5? We get a plane that will fly at more than twice the speed of sound. Though no aircraft capable of such speed actually logged more than a few seconds at any speed over Mach 1.6 in Vietnam (Mach 1 equals the speed of sound, 738 mph) and though speeds above Mach 1 rapidly exhaust fuel supply ("an airplane will reach Mach 2 just in time to run out of fuel"), top civilian and military officials in the Defense Department assured us that F-15's were needed to counter comparable Soviet equipment. But consider the story, recounted by Fallows, of Soviet Lieutenant Victor Belenko, who in 1976 (six years after F-15 procurement) defected to Japan in his MiG-25—"the principal threat to justify the F-15's high speed." American military experts

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clamored to get a glimpse of this super-machine (speeds in excess of three times the speed of sound had been recorded). What they saw was totally unexpected: a technologically inferior behemoth, with rust spots and protruding rivets. What they heard was even more startling. Belenko informed them that at speeds above Mach 2.8 the engines would overheat and incinerate, necessitating their complete replacement; Soviet pilots were forbidden to fly faster than Mach 2.5. In addition, what American experts had confidently estimated to be the plane's combat radius exceeded its actual capability by more than six and one-half times.

WHY spend four times as much per aircraft to get one-tenth the combat capability per dollar spent to counter grossly exaggerated threats? Senators Jackson and Warner will get more revealing (though perhaps not more satisfying) answers to such questions, Fallows suggests, if they talk to combat pilots instead of to Air Force Systems Command generals and McDonnell Douglas vice presidents. Shouldn't the guardians of our Republic's fiscal soundness be insisting on precise, well-reasoned, and thorough answers to these kinds of questions before disbursing huge sums for more expensive, unnecessarily complex, even ineffective weapons? Isn't this type of tough-mindedness what the civilian leadership of our military establishment is all about?

In another chapter, Fallows explains the dispute over intercontinental ballistic missile (ICBM) accuracy. Our ability to destroy a Soviet target with an ICBM depends on both the explosive yield of the warhead and on how close it comes to its target. Warheads with small yields such as ours must be especially accurate to destroy a blast-resistant target such as a missile silo. How accurate are our missiles? We really don't know, says Fallows; we estimate missile accuracy based on years of data obtained from test firings of non-operational missiles over the exact same missile test range in the south Pacific Ocean. But a missile's accuracy over long distances is a function of the earth's shape and gravitational pull, upper air densities and temperatures, magnetic fields, and the like. Do our data enable us to predict the accuracy of missiles fired over the North Pole—the path they would take to the Soviet Union—to within the few hundred feet necessary to give us confidence in their use? No, says Fallows. Though he concedes that such issues are in dispute (some experts even disagree on how to define "accuracy"), Fallows suggests that methods for guaranteeing the missile accuracy that would occur in wartime are, to say the least, uncertain.

But Seymour Zeiberg, former Deputy Undersecretary of Defense for Research and Engineering, is not uncertain. "There are no unknowns. There are no surprises." Fallows's message, to us and to Messrs. Jackson, Warner, Podhoretz, *et al.*, is that such claims are the moral equivalent of snake oil, and they should be treated with the skepticism they deserve. In general, when strategic planning becomes too abstract and doctrinaire, when we are prepared to

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spend $50 billion or more for weapons systems based on obvious overestimates of Soviet capabilities, when spending more on strategic forces becomes its own justification, our national security does not improve. It actually deteriorates.

He makes a similarly powerful case against the concept of an all-volunteer force and against the leadership this civilianized "army of the poor" is receiving. The volunteer Army, he argues, represents a triumph of reasoning that bases decisions on economic calculations of "marginal trade-offs and maximized self-interest." Such reasoning misses the central point, a point that would not be missed if decision-makers spent time with men who have combat experience: "A nation's military, especially in a democracy, can endure the hardships of war only if it feels tied to the nation by a sense of common purpose and respect." Treating military service as "just another job" to be performed by men and women who choose it because other job opportunities are nonexistent or less attractive does not provide a basis for proper motivation and commitment. Further, Fallows believes, "Most of today's generals and admirals are men who got there because they were procurement wizards, or adept at punching their tickets, or careful not to make waves," not because they were dedicated soldier-leaders. The military's answers to dwindling and inferior forces—higher pay, quicker promotions, and better housing—have done little to solve the problems of a poorly motivated, poorly led, lower class Army. Fallows predicts that continuing to emphasize the wrong solutions, while ignoring alternatives, can only make the problems worse and perhaps lead to dangerous consequences. We could find ourselves in wartime equipped with troops who have neither the will nor the ability to fight. He believes that a revival of military spirit will require reinstatement of peacetime conscription and the elimination of careerism from the officer corps.

Fallows's presentation is readable and forceful and well-suited to a general audience. He is not very rigorous, however, a shortcoming for which he will lose credibility with the influential audience he would like to win over. Each chapter is a collage of anecdotes, data, and opinions of variable quality rather than a carefully constructed argument, and the chapters are but loosely tied together. His approach is to present a particular viewpoint so that it and its implications can be readily understood. He is saying, in effect, here is thinking that I find persuasive and that is worth careful scrutiny by thoughtful people. But he resists engaging in that scrutiny himself. This approach, of course, makes the book itself vulnerable to such scrutiny which, in many instances, will reveal Fallows's implicit reasoning to be weak and many of his assertions to be unsubstantiated. The first two chapters have a term-paper quality, incorporating numerous quotations that might have been gleaned from sources on the shelf. The best material is on procurement, personnel, and strategic planning.

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THE lack of rigor does not altogether defeat the book's purpose, however. His evidence is too powerful to be ignored. More disappointing and ultimately detrimental to Fallows's purpose is his attempt to find thematic unity in the diverse mistakes in planning and execution. His theme is that all the crimes can be traced to the same suspects: the theorists, magicians, and theologians, as Fallows terms them, "managerial minds" who employ "managerial logic" when it is manifestly inappropriate. In fingering them, Fallows is reflecting the biases of his principal informants. A quirk in the dissidents' assessment of national defense planning is that they reserve their most acerbic criticism for Robert S. McNamara and Harold Brown and the orthodox practitioners of systems analysis —the economic and quantitative analysis of weapons system choices originated by Charles Hitch and Alain Enthoven and their colleagues at the RAND Corporation—even though it was the McNamara revolution in defense management that made their kind of criticism possible and respectable. The dissidents practice a certain indulgence toward the "jarheads" and "fighter jocks" in the military services whose career paths take them, usually against their wills, into the Pentagon's force planning business, where they become corrupted by the scientists, engineers, and managers who design and buy our weapons. They reserve their best shots for the economists, the builders of large-scale computer models of strategic warfare and air-to-air combat and rapid deployment, the MBAs and lawyers who invented "total package procurement," the calculators of optimum this and that, the quantifiers and chartmakers. "[P]lans for defense," Fallows says on the first page of his book, "are imperiled by the common, natural tendency to devalue anything that cannot be reduced to facts and figures."

This point, though it has proven popular with reviewers, is the least satisfactory aspect of an otherwise valuable book. Managerial thinking, he says, prefers the Trident to the Polaris simply because the Trident carries 24 missiles to the Polaris's 16. Neither McNamara nor Brown nor any of the analysts they would employ would decide this issue based on a crude argument. At times Fallows's rhetoric gets a trifle silly. "It takes more than the ability to analyze data," he offers, "to make a leader. . . . It is much easier to educate a manager than to develop a leader." Indeed, though he denigrates economic reasoning, reliance on facts and figures, and abstract logic, his arguments which are founded on simple logic, imaginative use of facts and figures, and a recognition of an elementary economic principle (why spend large additional sums for exotic technology or higher pay and prerequisites when they yield no additional security?) are the most compelling feature of his book.

Suppose we declare that physicists (Brown), economists (James Schlesinger), and management types (McNamara) are precluded from leading the defense establishment. Whom shall we put in charge? Surely not the Army generals and the professionals of the U.S. Army Ordinance Corps, who took a perfectly good rifle de-

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sign, turned it into a bad one, and handed it to their conscripted and uncomprehending troops. Surely not the crusty generals and colonels from SAC and TAC—the officers with the kind of "edge" to their characters that Fallows professes to admire—who stake their careers on procurement of the F-15, the B-1, and the MX and think that thoughtful analysis is for sissies. Surely not the admirals from CINCPAC and the Naval Air and Sea Systems commands, creators of Trident, the F-18, and aircraft carriers as large and expensive as the borough of Manhattan.

WHAT kind of leader-manager, then, can bring about the kinds of changes Fallows believes are necessary to improve our national security? The answer, contrary to what Fallows seems to imply, almost *has* to be dispassionate, experienced managers. Good intentions and a sophisticated grasp of the history of modern warfare will not be enough to reform the Defense research, engineering, and procurement establishment or the determinedly parochial, career-minded military establishment. We require executives who combine an instinct for inspirational leadership, which Fallows correctly sees as missing, with a penchant for facts and figures and for logical analysis of the kind that exposes the F-15 to be one-tenth as useful in combat as the F-5.

But Fallows should be forgiven this lapse. He has made the question of how the Defense Department of the 1980's should be led seem compelling. This is the chief virtue of his book. His argument is neither liberal nor conservative, Democratic nor Republican, for arms control nor against it. At a time when the public mood favors greater defense spending, he is appealing for tough-minded common sense in decision-making. He has an excellent point.

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Capitalism's "Moral Hazard"

MICHAEL A. SCULLY

***George Gilder:* Wealth and Poverty.** *Basic Books. 288 pp. $16.95.*

WITH his best-selling *Wealth and Poverty*, George Gilder has established himself as a beacon in the seldom-lit night of high-popular economics. Like his predecessor, John Kenneth Galbraith,

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Gilder is a graceful writer. More importantly, Gilder has supplied what a large segment of the reading public surely must have been hoping for: a sophisticated yet readable treatment of the economic calamity of their times, written by someone they sense could meet a businessman without being overwhelmed by a desire to wash himself.

If pride goeth before the fall, hope cometh before the climb. "The problem of contemporary capitalism," Gilder argues, "lies not chiefly in a deterioration of physical capital, but in a persistent subversion of the psychological means of production—the morale and inspiration of economic man—undermining the very conscience of capitalism: the awareness that one must give in order to get, supply in order to demand." The efforts of individuals, who invent and risk and produce, pumps life through an economic system. At root, ensuring a healthy economy has less to do with the aggregates and formulas by which economists measure than it has to do with encouraging a prejudice for human ingenuity and against short-sighted and green-eyed pillaging of other men's gains.

One of Gilder's chief efforts is to return the entrepreneur to center stage in the drama of capitalism. For Gilder, there are two complementary, though often hostile, economic realms: the entrepreneurial—innovative, daring, effervescent; and that of the large corporation,whose size and market share are proof of success at refining methods of production toward peak efficiency. When these two realms are thrown out of balance—really, out of constant competition—in the minds of legislators and scholars alike, blunders are never far behind. Thus, for example, Gilder's respectful treatment of several works by Professor Galbraith ends in a devastating comment:

> While the professor chatted with Bob McNamara and Walter Murphy about the doings at Ford and GM, imagining himself to be in the futuristic center of things in the new industrial state, a real industrial revolution [computer chips and microprocessors] was, in fact, massively erupting behind his back . . . in hundreds of smaller companies, led by men he had never met or heard of, and some of whom . . . had probably never even heard of him.

As this example suggests, the spheres of innovation-producing entrepreneurs and efficiency-perfecting corporations are not the only ones to be kept in competitive balance. Indeed, Gilder writes that the most important conflict is "the struggle between past and future, between the existing configuration of industries and the industries that will someday replace them." For modern democracies, this is the most difficult competition to maintain.

Gilder's analysis of social policy is also tied to a recognition of a competition, in this case between the desire for security and "insurance," and the desire for improvement through risk-taking effort. As he rightly points out, no society that fails to provide some measure of security for its citizens long endures. But it is also true

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that no economy prospers without risk-taking achievers. "Perhaps the central secret of capitalist success," Gilder explains, "is its ability to convert the search for security, embodied in savings, into the willingness to risk, embodied in enterprise." In a capitalist economy, most persons are self-insured; those who cannot insure themselves, and all of us in those occasional areas in which a society-wide "pool" is deemed desirable, find help in governmental mechanisms.

The problem is that in any insurance scheme, whether controlled by government, a private company, or oneself, there is a point of "moral hazard" past which insurance itself becomes an encouragement to create the situation against which we are insured. There are enough examples to prove the reality of this proposition: Government mandates guaranteeing arson insurance lead to declining neighborhoods experiencing more arson, subsidies to the working poor may increase marital breakup and therefore welfare dependency, and so forth.

Because we are unused to speaking of the acquisition of wealth as a form of self-insurance, we are unaccustomed to thinking of self-insurance as having, as do all other forms of insurance, a "moral hazard." But it does. When the man in late middle-age, having acquired wealth through the efforts that riveted the energies of his youth and middle years, trots off with some young girl in pursuit of a mirage of sundrenched bliss, we can say he exemplifies capitalism's moral hazard. And as self-insurance includes the immediate family, we can say that its moral hazard appears again when the offspring of the financially successful, because of their happy financial state, presume that life without needs is natural and then despise the processes and traits which were the sources of abundance.

In two remarkable novels about businessmen, Sinclair Lewis depicts individuals coping at the margin of capitalism's moral hazard. *Babbitt* and *Dodsworth* are novels about "the cultural contradictions of capitalism." What's more, much of their initial acclaim to the contrary, *Babbitt* is at least a balanced presentation of an American striver, and *Dodsworth* a genuinely sympathetic rendering of an American success.

The moral hazard for both Babbitt and Dodsworth is occasioned by the interruption of routine. In both cases, there is the need to confront competing modes of living—for Babbitt, a camping trip in Maine and bohemian nightlife in Zenith; for Dodsworth, Europe's aristocracy (mostly *manqué*).

Because Babbitt is by now well-off, and Dodsworth wealthy, they are dulled to pecuniary incentives. This is the boundary line of capitalism's moral hazard. Whether Babbitt goes home to his wife, whether Dodsworth builds houses or becomes an expatriate drunkard, depends upon whether they possess a belief about how to live that transcends the capitalist-entrepreneurial ethos.

For Dodsworth, "a crisis in his life had been forced upon him" by the sale, voted by the board of directors against his wishes, of

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his automobile company. His wife, who is Emma Bovary brought to Zenith, sees in this her liberation from boredom and forces Dodsworth to begin a prolonged drift through Europe.[1]

Thus Dodsworth must cope with the sort of life that for many is the real meaning of a successful conclusion to the American Dream: living without doing.

In his essay on Charles Dickens, George Orwell discussed the peculiar absence of work in Dicken's novels. Commenting on the fate of one hero, who retired to live happily ever after in the privacy of his home at about the age most of his 20th Century descendants would be beginning their careers, Orwell concluded:

> The 'genteel sufficiency,' the 'competence,' the 'gentleman of independent means,' (or 'in easy circumstances')—the very phrases tell one all about the strange, empty dream of the eighteenth- and nineteenth-century bourgeoisie. It was a dream of *complete idleness.*

Yet Fran Dodsworth's pathetic search does not stem from the desire for inactivity, but rather from a desire for position independent of the vagaries—and vulgarities—of moneymaking's rewards: that is, a desire for *status.*

With the decline of European nobility, there has come a diminution of the possibility Fran so feverishly hunts—that of "living like a lord." But whether it is a matter of living vicariously through Princess Grace, or boiling oneself pink in a redwood "hottub," there is much in the "moral hazard" of success that involves no less than a bourgeois dream *not to be bourgeois.* The "moral hazard" has to do with a "means" having been so successful that it raises a new question of "ends."

THE modern project, from which capitalism sprang, was an effort to unleash, from the conventions common throughout history, that impulse which would move men to pursue improvement in the physical circumstances of human life. Men had always pursued their own interest; what changed was that they no longer were to feel shame at doing so. The goal of personal salvation through altruistic activity shifted to a goal of community improvement—the "wealth of *nations*"—through self-interested activity.[2]

As with all great alterations in human perspective, a question

[1] The boredom of wives and its relief, especially in a romantic fantasy, is a problem that runs parallel to the one discussed here.

[2] For the ancients, spiritual improvement was the communal concern, and one's physical well-being his own business. For modern thinkers, improvement in the physical condition of existence is the public business, while the development of virtue was reassigned to the private realm. But history enjoyed one of its great jokes: When physical well-being was (theoretically) not a great public concern, there was little most individuals could do to improve their own conditions; but when physical improvement did become the principal concern of public life, it was discovered that general improvement was best facilitated by letting individuals contract their business with little interference from the state. All mercantilism, including recent varieties, originates in the failure to perceive this important irony. All socialism involves a refusal to believe it.

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soon arose. Did our new knowledge of the sources of earthly progress repeal every other truth we know about human nature? Bourgeois capitalist societies always answer: No. But bourgeois societies, to the degree they are successful, also produce large numbers of people who answer: Yes. The most prosaic of societies is the most productive of utopianisms.

George Gilder superbly demonstrates the relationship between entrepreneurial activity and expectation, and argues that the entrepreneur's efforts depend upon "faith." What he really means is "hope." There is ample opportunity for confusion here, as a mere glance at a dictionary makes apparent. True, the second dictionary definition of hope is: "confident expectation." That is, literally, expectation *with* faith. But the first definition illustrates why "hope" is the correct word for the impulses whose effects Gilder so masterfully analyses: "Desire accompanied by expectation of fulfillment." This first word in the definition of hope is the crucial one: Desire. Capitalism results from modernity's expansion of the scope of acceptable desire.

This confusion of "faith" and "hope" leads Gilder into the error for which he has been most widely criticized, that of locating the capitalist impulse to action in charity, and suggesting that capitalism is at root altruistic. There is enough *eros* in human nature to support the claim, but not enough altruism to carry the argument. Capitalism does not begin with "giving," it begins with hoping.

This origin in hope, then, explains capitalism's moral hazard. For the central cultural problem of capitalism, once it is successful, is how to channel desire into paths that are productive, or at least are not socially seditious. That is why capitalism's defenders cannot avoid trying to give a satisfactory reply to the question: What made Babbitt go home to his wife?

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A Confederacy of Individuals

ANDY STARK

Robert Goldwin and William Schambra, Ed.: **How Democratic is the Constitution?** *American Enterprise Institute. 150 pp. $12.25.*

ONE of Tocqueville's most incontestably famous aphorisms is: "The great advantage of the Americans is, that they have arrived at a state of democracy without having to endure a democratic revolution; and that they are born equal, instead of becom-

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ing so." What is not so well known is that Louis Hartz, at the opening of the first printing of his *The Liberal Tradition in America,* accidentally misquoted Tocqueville, attributing to him the belief that the great advantage of Americans is that they are born *free,* instead of having to become so. This confusion may be understandable when we consider that Hartz was writing about liberalism in America and Tocqueville about democracy in America, and that Americans have always conceived equality as well as liberty to be a constituent of liberalism, with liberty as well as equality being a component of democracy. The ideas of liberty and equality are, each of them, supportive of and integral to the American system of government—liberal democracy.

But how are these two ideas linked? How mediated? A worthwhile place to begin foraging for such a link is the splendid recent compendium of essays published by the American Enterprise Institute, *How Democratic Is The Constitution?* It is a volume in which one contributor, Ann Stuart Diamond, can declare that republican democracy rests on "the capacity of mankind for self-government, . . . (which) does not require liberty but does require political equality," and in which another contributor, Walter Berns, can declare that liberty and rights, not equality and democracy, are fundaments of the American regime. This is a fertile artifact, especially when one considers that Diamond and Berns in fact go on to argue for the same interpretation of the Constitution. How is it that their views are reconciled? The answer which emerges from the volume is: Equality and liberty sustain and are in turn fostered by liberal democracy through their effects on American individualism.

THE state or quality of American individualism at any stage in history might thus be considered an accurate gauge of the positions of the various desiderata of American politics. But before considering some of the markings on that gauge, as the AEI contributors explicitly and implicitly do, it is necessary to recognize that underlying the historical transmutations of individualism there is in American political debate a permanent sociological preoccupation with individualism. The individual, not classes or institutions, is the unit of philosophical political discourse; individualism is not only a political linchpin, it is a social cornerstone. The AEI contributors are thoroughly adept at showing that the Founders were well aware of what might be said to be the key difference between European societies and their own: In Europe, with changes of power, blood flowed in the streets; in America, with changes of power, saliva was to flow in the streets. That is, in Europe the political problem was to distill stability from clashes of large social blocs and institutions—the peasantry, the burghers, the nobles, the military, the church. In America, the problem for the Founders was to confect a balance from the interplay of "ambition, avarice, personal animosity," as Hamilton put it; qualities of individuals, not

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social aggregates. The virtues and vices of the American citizen were in many ways first in the hearts of the Founders.

While the various virtues and vices of American individualism—ruggedness, eccentricity, uniformity—are always changing and endowing each era in American history with its own nuanced flavor, the Founders' predilection for speaking of the individual, not the group, in political debate has grown steadily. Paradoxically, when one speaks primarily of individuals in political discourse, one can give them "color" only by speaking not of their socio-economic characteristics (because to do so would be to classify them), but of their moral or political natures, in which they are all the same. Therefore, to speak of individuals presupposes a homogeneous society, say one with a vast middle class, whereas to speak of groups enables one to make distinctions in society. Thus, Walter Berns writes that "The equal protection of the laws has come increasingly to mean that the laws draw no distinction" between groups of individuals, and Gordon S. Wood laments that when we do speak of groups, we use the elastic porridge of modern American impressionistic sociology, which employs such meaningless social classifications as "'establishment types,' . . . 'Archie Bunkers'" and so on.

The legacy of our reticence to bring political sociology into political debate—sometimes for the best, other times no—includes the struggle of supply-side economists against the taboo on distinguishing the behavior of the rich from the behavior of the poor, and of those advocates of affirmative action who must wrestle with our revulsion toward applying racial categories to individuals. Since this sociological preference for individualism is given, and was much in evidence at the Founding (although arguably less so than it is today), the greatest insight into the dynamics of American politics will result from a look at the attributes—often called "the virtues and vices"—of individualism *and* their role in the concrete functioning of American government. For this latter endeavor, the authors—like the Founders—step back from the particular virtues and vices of individualism, and instead treat the "virtuous individual" as a "black box," attempting to situate him in the structure of American political institutions.

At the outset, one must be mindful that two sets of virtuous individuals occupied the thought of the Founders—those who are citizens and those who are political leaders. As Madison wrote:

> But I go on to this great republican principle, that the people will have virtue and intelligence to select men of virtue and wisdom.

Ignoring for the moment the differences between intelligence and wisdom, the point remains that the virtue of the people and the virtue of the politicians are two separate questions. Indeed, it might be said that Federalist #10 is about the need for virtuous *leaders* for those times during which the contending avarices of the citizenry form factions, while Federalist #51 is about the need for vir-

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tuous *citizens* for those occasions during which the leadership is constituted of men whose sole preoccupation is jealously watching one another for signs of encroachment of power. The avarice of the people and the jealousy of the leaders are, of course, what were known as "vices"; and at any time at least one of them could be prominent. Thus the implementation in a constitution of the wisdom contained in both tracts will lead to a kind of double insurance policy on republican democracy.

Federalist #10, of course, assumes not a common code of virtue amongst the citizenry, but a "great variety of interests, parties, and sects," all combative and contending. Federalist #51, in contrast, speaks not of virtuous leaders but of how "ambition must be made to counter ambition" amongst "those who administer each department" of government. The contest of interests amongst the citizenry is called (today, at least) pluralism; the contest of interest among branches of government is called separation of powers or checks and balances. Both contests rely on giving play to Madisonian factions and sects and Hamiltonian ambition and avarice—in short, on vices, not virtues. In pluralism and in the separation of powers, the fusion of vices is made to benefit all by reason of the balance they provide. As the Founders recognized, this is how mutually offsetting individual "salivation" for power can be used for political balance in America, while the tension between powerful institutions and blocs makes for stability in other lands. But where does the virtuous leader or citizen come in? If the emergent properties of selfish citizens and jealous executives, legislators, and judges are so beneficial, why do we need to bother with "virtue"?

Thus far, Federalist #10 rests on pluralism and Federalist #51 on separation of powers. Because each of these contests of less-than-virtuous individuals serves to frustrate tyrannical coalitions of the majority, the first in the people, the second in government, they foster one of the two goals of government identified by Madison in Federalist #10—namely, the securing of the rights of citizens. But they do not abet the pursuit of Madison's other goal, namely, the promotion of the public good. Classically, it has been hard for political philosophers to come up with a method whereby either the antagonism of pluralism or the frustration of checks and balances will automatically promote the public good; indeed, as Rousseau showed in somewhat different terms, the promotion of the public good and the entrenchment of individual rights are hard to reconcile in practice.

So we must complete Federalist #10 and #51 by in each case complementing the rights-preserving struggle of vices with a virtuous leadership or a virtuous citizenry which will seek the public good. And the essayists of *How Democratic Is The Constitution?* do just that in the course of their exegeses. The pluralism of scrapping factions found in Federalist #10, according to both Wood and others, serves to clear the deck and make way for a virtuous leadership; in other words, the antagonistic interests cancel

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each other out, enabling a virtuous leadership—one unpractised in the "vicious arts" and imbued with "enlightened views and virtuous sentiments"—to promote the public good. And the separation of powers which in #51 is said to frustrate tyrannical leadership, but which cannot produce the public good from its quibbling branches, is complemented among the citizenry by "a coalition of a majority of the whole society [which] could seldom take place on any other principles than those of justice and the public good." But the tyrannical possibilities of such a coalition of the people is in turn mitigated by the difficulty of completely controlling a government which, by virtue of its checks and balances, cannot act all of a piece.

Thus, in Federalist #10 and #51, graspy individuals make for freedom, the confluence of virtuous individuals makes for the public good. In #10, freedom comes from the citizenry, the public good from the people's representatives. And the complementary spirit of #51 is captured in a letter from Madison to Jonathan Elliott, quoted by Ann Stuart Diamond:

> Is there no virtue among us? If there be not, we are in a wretched situation. No theoretical checks, no form of government, can render us secure. . . . If there be sufficient virtue and intelligence in the community, it will be exercised in the selection of these men; so that we do not depend on their virtue, or put confidence in our rulers, but in the people who are to choose them.

If the virtue of leadership combined with a pluralism of vices alone is sufficient to secure rights and good government, and if a virtuous citizenry combined with a government of countervailing ambitions is so sufficient, then why are both necessary for republican democracy? Was it required that the Constitution be cross-gartered by Federalist #10 and #51? The essayists in *How Democratic Is The Constitution?* suggest that indeed it was so required, for a virtuous leadership and a virtuous citizenry are each subject to their own peculiar degeneration (as are pluralism and a working separation of power), degenerations of which the Founders spoke and which can be identified at various points throughout American history. And since it is impossible that either the citizenry or their representatives in government be so constituted that either one alone could supply both an effectual public interest *and* security of rights and liberties (since the former relies on virtue and enlightenment and the latter on vice and tunnel vision), at any time either the schema of Federalist #10 or that of #51 must prevail for Madison's two goals to be realized.

The truth of this is borne out during those periods of American history when the citizenry of #10 is juxtaposed with a government straight out of #51, and vice versa. For example, on those occasions when both factions within the citizenry and cleavages between the branches of government runs deep—as is arguably the case during a period of avaricious interest group co-optation of the various branches of government—there is little question that

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rights are being vigorously asserted and even that liberties are protected if by no other method than governmental gridlock. But there are precious few who will say such a situation conduces to the public interest, especially its economic interest. Conversely, during those occasions when neither pluralism nor separation of powers operates terribly well—when the people are of one mind and there is one imperious branch of government or when both people and president are over-animated by moral fervor—it is hard to deny that some plausible conception of the public interest is being served. (One thinks of the time of Jackson and Franklin Roosevelt.) But because during such periods there is no strongly offsetting factionalism, either amongst the people or the branches of government, equally plausible rights—usually economic—are violated. The double insurance of the Federalist works only if we invoke one policy at one time; the Founders did not intend a mixture of the two.

But there is yet one other sort of distemper experienced by the genius of American government. As we have seen, it is impossible for the citizenry to be at once *both* pluralistically selfish and uniformly virtuous, and it is impossible that at any one time the government be composed of men who are *both* mutually suspicious and united in the pursuit of a common conception of the public good. Thus, there are times when only one of Madison's two goals will be reached. (These are periods when there is a mixture of the components of Federalist #10 and #51.) But it is quite possible that the citizenry be *neither* pluralistic nor uniformly virtuous, and that the government be composed *neither* of guardedly jealous stewards nor uniformly virtuous representatives. Thus, there are times when neither of Madison's two goals will be reached. They are times of true degeneration and corruption, or at least they have been identified as such by social critics throughout American history. What is not easily discerned solely by a look at the historical record is how the corruption of a leadership—an inoperative system of checks and balances manned by unvirtuous men—or a decadent populace—one neither vibrantly pluralistic nor uniformly enlightened and decent—actually work to make for such trauma. One must also look at the Constitution of the United States to understand such a dynamic, for when such a dynamic operates, the Constitution does not function properly for a republican democracy; that is, the Constitution itself becomes a means to subvert Madison's two goals.

WHAT causes a corrupt leadership, one bereft of virtue and bedeviled by a structure of checks and balances impotent to channel the remaining ambitions and interests? In America, to speak of a corrupt leadership is to speak of a tyranny of some sort. But what sorts of tyrannies are there beyond that staple of American tyrannies, the tyranny of the majority, and what are their causes? One finds in the writings of the AEI contributors four distinct connections of constitutional breakdown caused by a corrupted gov-

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ernment. They can be classified according to whether the degeneration of government is seen to be perpetrated by the few or the many, whether by groups or individuals close to the people, or by groups and individuals distant from the people. Thus, the government of a republican democracy does not secure rights nor promote the public good under four conditions: (1) There is, of course, the traditionally feared tyranny of the many by those who are close to the people and possess a clear political program understood by them (this is classic tyranny of the majority manned by demagogues). (2) Then there is a tyranny of the many by those who are distant from the people—perhaps forming the professional leadership of various nonpolitical institutions—whose aims and goals are less specifically political and material, more broadly social and spiritual (this is tyranny of opinion). (3) There is also in the American pantheon of political ills a tyranny of the few who represent the specific wishes of large groups of the citizenry (this is that recurrently perceived cabal of powerful interest group leaders). (4) And, finally, there may be a tyranny of the few far removed from the populace with only the nebulous goal of preserving a certain political climate (this conspiratorial tyranny, whose existence is notably hard to establish, is known to practice "repressive tolerance," a concept invoked by one of the contributors in particular).

The implication is that, to the extent that any of these tyrannies operates, then, according to the logic of Federalist #10 and #51, to that degree a virtuous leadership is absent and a functioning system of separation of powers has somehow been contravened or circumvented. And in such cases neither a pluralistic and self-interested citizenry nor a virtuous citizenry can prevent the Constitution from functioning as other than a republican democracy.

What causes a decadent citizenry? What has befallen individualism in America when the citizenry is neither virtuous nor pluralistic and moderately self-interested? We must first understand the Founders' notions of both a virtuous and a pluralistic citizenry before we can understand the ills which can beset a citizenry which would otherwise be conducive to a republican democracy. A virtuous citizenry is the sort that Jefferson hoped the Constitution would promote—one in which artificial barriers to merit would be abolished and individuals could rise or fall in a social order according to their "virtuosity." A pluralistic citizenry is the sort that Madison hoped the Constitution would promote, when, in Federalist #10, he wrote: "The diversity in the faculties of men . . . is the first object of government." There may of course be a conflict between the personal uniqueness admired by Jefferson and the personal independence advocated by Madison, because the former rests on meritorious and praiseworthy human qualities while the latter relies on self-interest and a certain amount of cupidity. Nevertheless, it can be said that when the citizenry is neither virtuous nor variegated—that is, characterized by neither personal uniqueness nor personal independence—the Constitution is imperiled.

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But as observers from Tocqueville to David Potter have recorded, independence and uniqueness are not always with us. They come in historical waves. And to the degree that they are absent, the Constitution cannot effect a robust republican democracy. Perhaps, however, it is more apt to say that independence and uniqueness are so admired in the American character that they are always with us, although sometimes in forms that mock the meaning they must actually take for the Constitution to work. Independence, when it becomes social detachment and diffidence, and then slides into Tocquevillean anomie, prevents the interactive pluralism integral to the scheme of Federalist #10. And uniqueness of self, when it ceases to be predicated on merit and becomes a fetishistic eccentricity, then becomes either a Tocquevillean conformity which is very distinct from a common code of virtuous behavior, or a narcissism which is its very antithesis.

Detachment, diffidence, conformity, and narcissism are common and commonly diagnosed maladies of the American *character,* just as tyranny of the majority, of opinion, of interests, and occasionally of vague conspiracies, are equally high-profile ailments of American *government.* Thus, an acute social critic can, by determining the relative prevalence of these debasements of American individualism in any one epoch, tell us a great deal about the extent to which the Constitution of the United States is functioning according to the standards of republican democracy adhered to by the Founders. As the scholars of *How Democratic Is The Constitution?* so ably show, it was the genius of the Founders to realize that both desirable virtues and ineradicable vices of the individual character were necessary abutments of republican democracy. They were able to design a Constitution that is not only versatile enough to ensure that individual virtue *and* vice not go to waste whenever they are to be found, but also fecund enough to enable us to determine which distempers we are suffering when they are not to be found.

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From Being Square to Squaring-Off

PAUL SEABURY

David Armstrong:* A Trumpet to Arms: Alternative Media in America. *J.P. Tharcher, Inc. 384 pp. $14.95.

When raconteurs debate the "causes of the Berkeley revolution," I advance an unprovable theory. It is not about how or why, but about where and when the revolution first started—in other words, a simple theory about its proximate cause. Such a

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speculation resembles the one which asks: Where and when did the Atomic Age start? With Einstein in the 1920's? With Neils Bohr in the 1930's? In the Berkeley Radiation Lab in the 1930's? In the Chicago football stadium in the early 1940's (the Manhattan Project)? Almagordo? Hiroshima? Each such partial explanation invests the question with a particular significance. I argue that, in one respect, the place where the Berkeley cultural revolution first got started resembles the Chicago football stadium. There, in December 1942, physicists succesfully carried out the first nuclear chain reaction (entailing the combination of two substances: graphite and uranium). As the *Encyclopedia Britannica* says, this was a "triumph of experiment, deduction and theory." The Berkeley fusion, however, was unintended and accidental.

I locate the exact spot (though not the precise date) of the beginning of Berkeley's chain reaction near a cafe close to the corner of Dwight Way and Telegraph Avenue sometime in 1963. This spot is four blocks from the University campus and half a block from another—but minor and short-lived—center of learning then known as McKinley Continuation High School. McKinley existed as a very unwise educational experiment—a reformatory for older, low-performing if not delinquent students, chiefly low-income blacks unable to meet regular high-school graduation requirements. A highly unstable mass, one of its major features was a strong drug culture—a culture previously almost unknown in the campus area. The fusion of this with parts of the campus student population brought drug-users and pushers into intimate contact with upper-middle class adolescents. In scarcely a year, Telegraph Avenue's ambience was noticeably transformed. The Avenue was well on the way to being "stoned" before Kennedy's assassination and considerably before university students heard about Vietnam.

This locale soon became the birthplace and chief scene of America's alternative culture of the 1960's; even today its residual flotsam and jetsam remain on the Avenue. Without it, the Berkeley student explosion of 1964 (the so-called Free Speech Movement) would have been very unlikely. The Chicago Manhattan Project's active ingredient was uranium; Berkeley's was drugs. The ultimate victim of the former were Japanese subjects; of the latter, much of a generation of upper-middle class young Americans.

This theory will be hotly disputed; even I must qualify it a bit. The counter-culture, as it evolved, was not wholly the product of drugs; it was the fusion of drugs with upper-middle class intelligence. Shortly, it also became an alliance of this deranged culture with middle-class leftist politics. This made the essential difference.

DAVID ARMSTRONG'S *A Trumpet To Arms: Alternative Media in America* focuses upon one feature of this cultural catastrophe: the so-called underground media which the cultural revolution inspired and which then served to intensify and disseminate it. It was most manifest in the underground press, of which the *Berkeley Barb*

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and the *Los Angeles Free Press* were originally the most notable. This interesting experiment in journalism, born in California, spread eastward to encompass many university towns.

The author of this book, an epigonic *Barb* editor, in one sense should be complimented for his encyclopedic, though very partial, history. If it is a "must" for anyone to buy, librarians of American cultural history should come first, for its subjects are very fugitive.

Both Armstrong and his foreword writer, Ben Bagdikian (ex-national editor of the *Washington Post*), are animated by an odd conviction that this underground press belongs in the mainstream of courageous American journalistic dissent. The usual crowd—Peter Zenger, Tom Paine, Sam Adams, Harriet Beecher Stowe, Margaret Fuller, Amelia Bloomer—is invoked, to exculpate or defend some egregious abuse of media power. This conviction would be credible to readers if we confined our attention to Armstrong's account of his subject, rather than to the subject itself.

For a self-congratulatory tone informs *Trumpet To Arms*—not just its nostalgia about all the fun and excitement of these years of journalistic trashing, but also its success in failing to convey a sense of the truly bizarre nature of its subject. From beginning to end, the book reads like an authorized history of the International Brotherhood of Steamfitters; not only is it bland, it is *square*. This squareness ("straightforward prose," one reviewer politely calls it) is made possible in part by simply sanitizing the squalid nihilism which evolved within a movement which the author professes to admire. This may be why journalist Daniel Schorr, in his blurb, is able to praise not just Armstrong but also his principal subjects, and patronizingly to "welcome" these "pesky rebels" into the "mainstream of American journalism."

But clearly Armstrong is a latecomer to the underground press; he is not a true representative of the tradition which he amiably chronicles. Occasionally he criticizes certain of the movement's excesses and also provides interesting glimpses of internecine feuds. (Not the least of these were the in-house struggles between the founder-publisher of the *Barb* and his staff, which, when the paper began making money, accused him of being a capitalist and a slave-driver.) But taken as a whole this is a eulogy, even as it describes and laments the ultimate degeneration of these papers when their life-style and content degenerated into pure pornography or innocuous little weeklies for hedonists.

WHEN undertaking this review I had occasion to sample copies of the *Barb* in its formative years, 1965-1967, before its truly nihilist phase in 1969-1970. One intriguing aspect of those early years in Berkeley, akin to those of the *Los Angeles Free Press*, is that the founders of these two papers—Max Scherr and Art Kunkin—hardly were products of the new youth culture they celebrated and to which they pandered; both already were deep into the untrustable "over-thirty" crowd when they got started.

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Scherr's first editions certainly were not "with it." They were devoid of the squalor of subsequent ones, even though the Berkeley cultural revolution was well under way. The Berkeley "Foul Speech Movement" had already followed in the footsteps of the purist Free Speech Movement on Campus.[1] In fact, the *Barb* was born square! In one of its first issues, for instance, the lead article reported a speech by an "Afro-American" leader who denounced school desegregation as a "waste of time," stressing instead the importance of motivation for "negro" school children. Scherr's editorial that day praised Oakland symphony director Gerhard Samuel for a splendid performance of Haydn's Symphony 22: "Let's hope it can be made part of the regular repertory!" A later issue that year featured a music column titled "Aimiez-vous Brahms?" Only gradually, so it would seem, did Scherr begin to respond to the vibes of the Avenue and its swirling subcultures as a market for his street-journal. Two years later he presided over the *Barb* we remember so well—alienated, psychedelic, hippie, and childishly obscene. By then the *Barb* and the *Free Press* had a cult figure in Timothy Leary, the Pied Piper of LSD, musical heroes in Dylan and the Beatles, and a chief preoccupation in destroying *Amerika's* dominant society and leadership by means of confrontation and shock treatment.

As I said, Armstrong's book sanitizes such matters. While early issues of the *Barb* lacked premonitions of things to come, they were particularly devoid of the counter-culture classifieds which later were to become their principal source of revenue. By the time these became popular, the drug culture and the dangerous experimentalism which it inspired were in full swing—surface manifestations of a tragic scene which the *Barb's* journalistic irresponsibility served to inflame. (And so, too, the *Free Press*: On one occasion the *Free Press* published a list of home addresses of Los Angeles narcotic control officers.)

The early classifieds were innocuous: "Evil Toad wants Fat Witch;" "Yng attractive male wl shr his pad and food with same in exchange for lessons in French and Hebrew;" "Keep California Green—Plant Grass." Later ones revealed a selfish, destructive, juvenile tragedy: "Hskpr wanted: intelligent and capable of reacting to 6 yr old boy in Summerhill tradition;" "Babies, always put your toys where you know they belong, because I love you very much. Forever is a long time. Mommy;" "Mr. Spock, we love you, too. Gil and Becky;" "Groovy environment needed for 8 mo. old boy." Its political radicalism aside, the *Barb* became almost wholly psychedelic. Regularly featured in the classified section was its phone directory

[1] Berkeley's day of obscenity-liberation preceded the *Barb* by several months. In early 1965, on Sproul Plaza, a langorous blonde amplified through her bullhorn a comprehensive list of Anglo-Saxonisms in front on an astonished crowd of undergraduates, no doubt expecting to be arrested by campus cops. But among those most disgusted by this spectacle were the leftist leaders of the then-triumphant Free Speech Movement; they, good Marxist-Leninists, denounced this happening as diversionary infantilism.

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for most-often needed numbers. These were called "Phrequent Phones": Alcoholics Anonymous; A.C.L.U.; Berkeley Draft Information Committee; Berkeley Police Department; Citizens Alert; East Bay Sexual Freedom Committee; LSD Rescue Service; Pregnancy Test; Berkeley Provos; Society for Humane Abortion; and Suicide Prevention. Much worse was still to come: True violence on a large scale struck the campus and the city in 1969-1970, violence inflamed by the *Barb* itself.

Armstrong, by and large, prefers to ignore the human tragedy in these matters, while stressing the supposed suffering of heroic writers and editors at the hands of an outraged "ruling class" that now oppressed them as earlier ones had so oppressed Zenger, Paine, Adams, and others. Armstrong also takes pains to show the benign influences of the counter-culture upon society at large. (One of the minor triumphs he describes is the way in which the counter-culture introduced yogurt to America. Poor yogurt, to be so misrepresented! Even in the 1950's yogurt had been popular among finicky, straight, health freaks.)

Yet Armstrong tells a lot about the uneasy, strange alliance between the Berkeley young Communists and the drug-hedonists of the 1960's; here we can find one partial explanation for the short life of America's unprecedented cultural revolution. From Armstrong's account it is clear that the Berkeley left, from the beginning, was of two minds about its allies. The Marxist-Leninist leadership cadres at least never sank into the drug morass; its puritanical cast of mind was that of ambitious achievers shrewdly aware that, if the Berkeley revolution dissipated into a freaked-out subculture of non-achievers, its own high-minded goals—then focused upon support of Hanoi and other totalitarian causes—would probably be adversely affected.

On the other hand, by strange good fortune, the alienated did furnish a large reserve of cannon-fodder—stoned shock troops who served to devastate the campus and the surrounding community. During the frequent riots the agitprops rarely were in the forefront of the mobs; once the mobs had been worked up in fury at rallies it was necessary only to form them into maddened platoons, sent off ("theirs but to do or die") towards some target of destruction. The underground media—such as the *Barb* and Berkeley radio station KPFA, uneasy ensembles of radicals and cultists—both aided and abetted these activities.[2]

A similar ambivalence about this alliance is to be seen in the counter-culture. Sharing with the left a hatred of *Amerika,* the counter-culture's reasons and purposes were hardly identical with those of

[2] Armstrong asserts that the *Barb* played a catalytic role in the bloody seizure of People's Park in 1969. Some of its staff directed operations and the paper prophesied and heralded the event days before it happened. But Armstrong neglects the equally important role of station KPFA which, monitoring the riot, helped to mobilize the "Community" throughout the course of that dubious battle. Its license was never revoked.

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the totalitarian left. Early on, for instance, many counter-culturists opted for quietism and introversion, not "enthusiasm," even despairing of any organized activity whatsoever. Many fled the scene completely to form unstable rural communes. The "make love, not war" cult really *did* hate violence, and many resented the harsh, violent tasks which the Left wished to assign them. For example, a major split between these two factions erupted inside the *Barb* in 1969, nearly destroying the paper. As the left and the counter-culture parted ways—when the Vietnam issue waned and the draft issue disappeared—the manipulated mass culture broke away from the left leadership (much of which went off into nice, well-paying jobs in professional-corporate America). Some of the media people presumably found their places in establishment journalism (Schorr's "pesky rebels"). The chief victims of the cultural revolution were the hippie shock troops, not the left.

As for the underground media themselves, Armstrong (who wants to create an Arthurian-heroic legend) attributes their decline and fall chiefly to brutal repression by the F.B.I., the C.I.A., Spiro Agnew, Richard Nixon—the usual hate objects. Certainly there was no love lost between Washington and the alternative press, the S.D.S., the Weathermen, the Panthers, and other terrorists of the time. These were publicly denounced in high places; concerned with subversion and terror, not to mention narcotics, intelligence agents infiltrated the underground media. In some instances police action *was* illegal.

Yet Armstrong on this point is wholly wrong; the media *flourished* on violence and "repression." There is not one instance in Armstrong's book in which one single underground paper (or station) was closed down, subject to prior restraint, or legally punished for incitement to riot, nor were the editors thrown into jail for editorial actions. In fact, the *Barb* reached a high point of 93,000 sold copies at the time of the People's Park riots. As calm was restored after 1970, the *Barb* never recovered.

All in all, not a pleasant story, as the author tells it; but the tale is pleasanter than the reality upon which it was based. There is one rather funny epilogue, however, ironic in light of Armstrong's theory of repression as the end of the underground. The author states that, among the many counter-cultural media, several which manage to survive today (such as station KPFA in Berkeley and the slick radical magazine *Harrisburg* in Pennsylvania), do so by substantial infusions of federal and foundation funds from the National Endowment for the Arts, CETA, and the Rockefeller Foundation. The author at one point cites Paul Krassner, editor of the leftish *Realist*, to the effect that "the truth is silly putty." Good enough, perhaps, to win him a Pulitzer in journalism, but not good enough to be true. Often the truth is simply preposterous.

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Liberal Censorship?

WALTER BERNS

***Laura Lederer, ed.:* Take Back the Night: Women on Pornography.** *Morrow Quill Paperbacks. 359 pp. $7.95.*
Report of the Committee on Obscenity and Film Censorship. *Her Majesty's Stationery Office. Cmnd. 7772. 270 pp. £7.90.*

ONE would have thought that the censorship issue had been settled in the liberal societies of the West. In theory pornography may be proscribed by the law—in the United States, for example, it is not protected by the First Amendment—but in practice it is readily available, and not merely as part of an under-the-counter custom. Not only is pornography popular and a major element of our popular culture, but it is legitimate, if not respectable. When a president of the United States finds it not improper to appear in the pages of *Playboy*, who is left to do the work of Anthony Comstock? And why, for that matter, should anyone think it should be done? In 1970 we had it on the authority of President Johnson's Commission on Obscenity and Pornography that obscenity and pornography do us no harm and, by helping us get rid of sexual hangups and all that, may even be beneficial. In any case, middle-class America learned that it was a lot of fun—no longer was it necessary to go to an American Legion smoker in order to watch famous actresses masturbate—and it was especially agreeable to be told that with complete freedom of expression the arts would finally begin to flourish.

Now, with the publication of these two volumes—the first a collection of some three dozen feminist essays and the second a report of a British royal commission—all this is cast in doubt. Censorship may be on its way back, and, if the feminists have their way, with a vengeance.

Lederer and her feminist colleagues look upon the President's Commission on Obscenity and Pornography as a kind of metaphor for everything that is wrong with America. To them the Commission's 1970 Report was the product of a liberal, capitalist, racist, but mostly male-chauvinist conspiracy. (Of the 21 commissioners, only two were women.) The Report ignored the problems of child pornography, we are told, because the commissioners were themselves pedophiles. They knew that women are degraded by pornography —not because women read and enjoy it (they don't) but because they are featured in it—yet the commissioners choose to ignore this precisely because, being men, they want to see women degraded. Men hate women; pornography, like rape, wife-beating, and murder, is merely a manifestation of that hatred. Here is Andrea Dworkin on this subject.

> . . . sex and murder are fused in the male consciousness, so that the

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> one without the imminent possibility of the other is unthinkable and impossible. . . . The annihilation of women is the source of meaning and identity for men.

It is men who enjoy and therefore produce and consume pornography. Men organize the Miss America, Miss Nude America, and Miss Wet T-Shirt competitions, and men who judge and otherwise profit from them. It is men who publish *Playboy, Penthouse,* and *Hustler.* Hugh Hefner epitomizes the enemy; his magazine and its imitators may be mild fare when compared with "snuff films" —films purporting to show the actual murders and dismemberment of women (always women)—but, we are reminded, the former led to the latter just as surely as pornography leads to rape. Since men want only to rape women (prior to murdering them), it is only natural that they should want to provide pornography with constitutional protection. They wrote the Constitution, they interpret it, and in doing so they systematically deny women *any* of its protections. The First Amendment "belongs to those who can buy it," and in "Amerika" it is the men who have the "economic clout." On the harm done by pornography, then, the various essayists in *Take Back the Night* are not only in complete agreement with each other but in absolute disagreement with the traditional liberal catechism which, of course, was written by men—or, one might say, by men, of women, for men.

So much for *Take Back the Night: Women on Pornography,* except to point out that whatever doubts there may be about men in general hating women in general, there can be no doubt that these particular women *hate* men.

THE British royal Committee offers a much milder program. There are no legal restrictions on written material, in part to avoid the vexing problem of distinguishing between trash and (to use the American formulation) materials with a redeeming social value. The usual run of pornographic materials may be made available, but only to those who want them: They are not to be displayed, advertised, or sold except in separate premises. Only two classes of material are to be banned altogether: material whose production involved the exploitation for sexual purposes of children, and material suggesting that "actual physical harm" was inflicted on the persons featured in it.

On the whole, however, the British Committee was not persuaded that pornography is harmful. "We discussed these matters with a number of psychiatrists and psychologists, including some with special experience of the treatment of offenders, but we were struck by the fact that none of them was able to tell us of a case of which they had experience in which there was evidence of a causal link between pornography and a violent sexual crime." As the feminists could have predicted, some of these same psychiatrists and psychologists—liberals to a *man*—were of the opinion that "the effects of pornography were beneficial rather than harmful." Indeed,

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the Committee's inability to view this subject from any other than the traditional liberal perspective makes it possible to be at least somewhat sympathetic with the feminists' complaints.

The Committee takes its bearing from John Stuart Mill's familiar principle that "the only purpose for which [governmental] power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others;" and, as I indicated, it was not persuaded that pornography is harmful to those who "consume" it or to those who, in one way or another, come into contact with those who consume it. Like the President's Commission before it, the royal Committee found that "empirical evidence" did not lend support to the view that pornography is harmful in this sense. One psychiatrist told the Committee that there is even reason to doubt that the children sometimes used in the production of pornography are harmed by the experience: Young girls often have the ability to exploit what they see as a "good racket" and are quite capable of still "growing up into well-adjusted women." (Not that he would want to marry one of them, or look on placidly if one of his own children availed herself of the opportunities provided in this free market; it is just "that long-term damage to those involved [is] more doubtful than is widely assumed.")

One is bound to wonder, however, if pornography does not in fact have harmful results that are not readily identified by the psychiatrists and psychologists, or anyone else who collects the sort of "empirical evidence" relied upon in this field. "The main international interest in a possible link between pornography and sex crimes has centred on Denmark and what was the result in that country of the abolition of the laws restricting pornography." Thus the royal commission reviewed the conflicting evidence coming out of Denmark —just as every recent study of the subject has turned to Denmark— and concluded, reasonably enough, that perhaps (or perhaps probably) the incidence of Danish sex crimes is no greater now than it was before "liberalization." The Danes did have to clamp down on the live-sex shows, not because they objected to them in principle, or on moral, political, or even aesthetic grounds—no one in authority insisted that, for example, the government ought to wonder about a population that entertains itself in this way—but simply because live-sex shows "invite or precipitate audience participation and this carries some dangers of public order problems." (Why not forbid soccer matches, too?)

The interesting question was neither answered nor even raised by the Committee: would "liberalization" in Britain cause that country to come to resemble, or more closely resemble, Denmark? Harm of this sort never occurred to these good liberals.

To its credit, however, the Committee did express some reservations about one of the essential elements in the liberal case against censorship. It was told by the Fabian Society, as generations of Americans have been told by the ACLU, that modern democratic

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society is based, and must be based, "on the belief that individuals are competent to make decisions on matters concerning their own lives and on the best course for the society in which they live." The Committee is not so sure about this: "We feel it necessary to say to many people who express liberal sentiments about the principle of adult freedom to choose that we were totally unprepared for the sadistic material that some film makers are prepared to produce." What disturbed the commissioners was not the explicit portrayal of sexual activity but the "highly explicit depictions of mutilation, savagery, menace and humiliation," and that this should be offered to (and be accepted by) audiences as entertainment. Their conclusion was that films should continue to be censored.

But why? Was there some fear (and if so, can they point to some evidence tending to support that fear) that scenes of violence induce violent behavior? If so, would it not be at least as likely that scenes of sordid sexual behavior would induce sordid sexual behavior (including some of the sort the feminists are complaining about)? Why censor one and not the other, unless, true to the principle underlying the liberal state, they are concerned only with self-preservation? Is it improper for a liberal state to be concerned as well with the sort of selves that are being preserved? The Committee did not raise this question. But is it not appropriate to wonder if the time has not arrived to re-examine the entire question of censorship of the arts in a democratic society?

Such a re-examination would have to begin by wondering—to put this in an American context—what the authors of the First Amendment had as their purpose when they forbade Congress to make any law "abridging the freedom of speech, or of the press," and whether the freedom they intended for political speech must, of necessity, be extended to the popular arts, or whether it is possible to find a principle on the basis of which a distinction might be drawn. Pursued diligently, such an inquiry might have led to a rediscovery of the argument—made, for example, by Rousseau and Tocqueville, both staunch friends of popular government—that while the censorship of political speech is quite properly associated in our minds with repressive regimes, it is precisely democratic regimes that must be concerned with the character of public entertainments.

The reason for this may be stated simply: Self-government depends on citizens capable of governing themselves and, as Allan Bloom put it in the introduction to his translation of Rousseau's *Letter to M. d'Alembert on the Theatre*, "able and willing to take a real and courageous interest in public affairs." Such a regime cannot be indifferent to the character of its people, and the arts, including the popular arts, do have an effect on that character. This was argued most persuasively by Rousseau, and I can do no better than to conclude by urging everyone to study that argument.

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The Elitist Paradigm

PETER L. BERGER

G. Lowell Field and John Higley: **Elitism.** *Routledge & Kegan Paul. 130 pp. $18.50.*

THIS brief, tightly packed, and highly stimulating book is an interdisciplinary effort that merits widespread attention (Field is a political scientist at the University of Connecticut, Higley a sociologist at Australian National University). The authors have a twofold agenda—to revive what they call the "elitist paradigm" in political theory, and to point to what they consider its urgent policy implications. On both counts the book is programmatic, but to say that is not a negative criticism. Obviously, as the authors state themselves, a great amount of work needs to be done to support their theses, but the book is eminently successful in raising a crucially important issue.

The paradigm derives its major features from the Italian school of political theory as developed by Pareto, Mosca, and Michels. This school, and indeed any approach focussing on elites as anything but morally reprehensible phenomena, has been discredited by its association with the vulgarized elitism of fascist ideologies. But even apart from this association, it is very difficult to deal in non-pejorative terms with the notion of elites in an age dominated by both liberal and socialist egalitarianism. Considerable space in the book is given to an examination of this egalitarianism, especially in its liberal form. The authors consider it to be based on a set of illusions that has greatly contributed to the political problems of our time.

They say, "A general failure to consider the complementarity of elitist and liberal principles has been at the heart of a serious doctrinal degeneration within liberalism. The most important practical aspect of this degeneration has been the relation of democratic and other egalitarian values to liberal values. Although democracy and other forms of equality obviously belong among the ideal goals of any liberal political system, they are not, contrary to the assumptions commonly made by liberals, reliable instruments for promoting the political liberalization of societies."

IF egalitarianism is illusionary, the key question becomes: What sort of elites are viable under contemporary conditions? To answer this question, the authors contend that classical elite theory is not enough. For one thing, Pareto and his associates did not sufficiently differentiate modern elites from those in earlier periods of history, the former being shaped both by the structures of the centralized nation-state and a fully developed bureaucracy. The authors make two quite innovative contributions to the elite paradigm: They analyze the relation of elites to the non-elite populations support-

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ing them (or failing to do so), and thus the ways in which elites legitimate their power; and they differentiate the problems of elites on the various levels of socioeconomic development. The latter contribution is particularly useful.

In undeveloped or underdeveloped societies there is an insufficient socioeconomic base for the appearance of a modern national elite. Such an elite begins to appear with industrialization and urbanization, comes to maturity in fully industrialized societies, and begins to face serious problems of maintenance in societies called "post-industrial." Seriously egalitarian regimes, the authors believe, are only possible on the lower levels of development (though, of course, even there they are far from being the norm). The paradox of modernization is that egalitarian *regimes* become progressively less feasible, while egalitarian *ideologies* are rampant as expressions of assorted resentments and "alienations" endemic to societies on this level of development. This creates not only problems of political management, but problems of legitimation—and of *self*-legitimation—as elites themselves lose the assurance that is essential for the successful maintenance of their position. One further consequence of this is that egalitarian movements, once in power, simply mask the ascendance of a new elite under the smokescreen of egalitarian rhetoric (the socialist regimes of this century, of course, are the prime examples of such rhetorical obfuscation).

The authors pay great attention to the question of the degree and nature of elite cohesion. Disunity or unstable unity within an elite clearly impedes its political function. But the authors distinguish further between elites unified by ideology and those unified by consensus. Ideologically unified elites are not conducive to liberal regimes. Thus the "hero category" (if there is such a term) in the argument is the "consensual unified elite." Such an elite is the sort that used to be called positively (and is still called pejoratively) "the Establishment" in Britain and the United States—an informal, unseen, but nonetheless potent arrangement between the leaders of a number of national institutions. The authors believe that, at least under modern conditions, only this type of elite can maintain the political stability which is the precondition of representative democratic government. This belief leads them to pessimistic prognoses: Such elites are under severe challenge in the Western societies they used to manage and are not likely to arise in other societies.

Such pessimism cannot inspire and is difficult to translate directly into policy directives. Yet the authors do have a policy message, even an urgent one. To elites, especially in the Western world, they recommend a *prise de conscience* that might restore at least some of their self-confidence. To the rest of us, especially social scientists, they recommend that we free ourselves from the illusions of egalitarian ideology. Even moderate optimists will be skeptical about the prospects for either recommendation.

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A Revisionist Federalist

DAVID F. EPSTEIN

***Garry Wills:* Explaining America: The Federalist.** *Doubleday. 296 pp. $14.95.*

THE *Federalist*, a series of essays written in 1787 by Alexander Hamilton, James Madison, and John Jay under the pseudonym of "Publius" in support of the ratification of the American Constitution, is America's premier book about politics. As a sequel to his book on Jefferson's Declaration of Independence, journalist and professor Garry Wills now offers a new interpretation of the *Federalist*. While his method appears to be that of the intellectual historian, tracking down sources and words in eighteenth century texts, his question is of more than historical interest: What principles guided America's founders in making the political choices which, by law and opinion, still guide us? Wills's two books have a common answer which is expressed in their common cast of supporting characters: John Locke, defender of the natural rights of individual men and traditionally thought of as "America's philosopher," is downgraded while the thinkers of the eighteenth century "Scottish Enlightenment," analysts of human sociability and morability, are presented as the decisive influence on America's founders.

Wills's title and introduction imply that understanding the *Federalist* will help us understand America. But he concludes that while previous misinterpretations have made the book seem to explain America as we now know it, the book itself is firmly rooted in eighteenth century thought, and explains America only in explaining America's genesis. The *Federalist* reveals what America's founders had in mind, and Wills seems impressed by its nobility even as he suggests it is a "noble failure." Today's political scientists keep the *Federalist* on their bookshelves, even if not at their fingertips, because they think it is a "realistic" analysis of the American polity. It recognizes the power of self-interest and defends institutions which permit interests to bargain for advantage but not to dominate. In contrast, Wills thinks the *Federalist* offers a more elevated vision of politics that is commonly held or warranted. Not an acceptance of human selfishness but a "classical zeal for republican virtue" is at the "heart" of the *Federalist*. The question between Wills and his academic targets is whether the *Federalist* is a noble failure or a not very noble success.

Wills finds the keys to the *Federalist* in Hume and Montesquieu. Wills's *Federalist* follows Montesquieu in the view that public virtue is indispensable to republican government, and follows Hume in the view that human nature can supply such virtue. Montesquieu argued that virtue is the principle or activating spring of a republic, and consists in a simple passionate love of country inculcated by law and education. Precisely because the people are the rulers

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and not merely the ruled, they must have this quality; if they use their rule to satisfy selfish passions or self-indulgent relaxation amidst foreign enemies, their regime will fail. Wills conscripts Humean psychology in the service of Montesquieuean republicanism. He thinks the *Federalist* followed Hume in taking a "generally optimistic view of man as sociable and acting from a moral sense," and rejecting "the selfish system" of Hobbes and Locke which implies that public virtue is too exalted for human nature. The political institutions which the *Federalist* defends are attempts to build a "discipline of virtue" which can draw upon and preserve the people's virtue. The failure of that scheme is manifest today in the activity of political parties and the open espousal by politicians of particular interests, practices which Wills says Madison thought would "spell . . . the end of the republic."

Most readers of the *Federalist* will recall several famous passages which make Wills's interpretation seem very peculiar. The tone of the *Federalist* is generally hardheaded, repeatedly expressing a distaste for noble failures built on "utopian speculations" by "theoretic politicians." Wills locates more evidence linking the *Federalist* to Hume's political writings than to Montesquieu's strictures on virtue; but Hume's writings do not really support Wills's assessment. Wills says Hume "regularly" rejected "the selfish system" of Hobbes and Locke, and interprets that as a disagreement with Lockean views about property or politics. But it is Wills who regularly repeats a single statement by Hume, made in a different context. The "selfish system" criticized by Hume is a philosophical system which deduces morality from self-love; Hume (like Adam Smith) deduces morality from sympathy. The disagreement was not about the existence or political significance of selfishness. Hobbes agreed with Hume in admitting the existence of sympathetic passions, and Hume agreed with Hobbes in thinking that those passions do not solve the political problem. Though sympathetic passions do not always prevail over selfish ones, men's sympathies are often with their faction rather than with the country as a whole. For this reason men often behave dishonorably in groups; Hume says political science must assume men are knaves, even though they are not in fact knaves. A republic as described by Montesquieu is incompatible with that assumption.

The *Federalist* clearly believes there is such a thing as virtue, and that it is a valuable quality in founders, citizens, and rulers. But that is not an endorsement of Montesquieu's view of the matter. Wills quotes but does not carefully analyze statements in the *Federalist* which refer to a "portion of virtue," or "sufficient virtue." Wills stresses Hamilton's remark that republican citizens can be corrupted by bribes which a monarch would find paltry, and that "superlative virtue" would be required for them to resist the temptation. But he does not mention Hamilton's conclusion, which is that no single citizen should be trusted with, for example, the treaty-

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making power, so Wills thereby leaves his readers to think that Hamilton thought "superlative virtue" could be relied on. Federalist #10 makes clear that virtue *should* be a primary qualification for election to office, but Federalist #35 calmly predicts that voters will often choose those sympathetic to their own interests. And Wills's assertion that Madison thought that parties "would not" and "should not come into existence" and that their activity would "spell the ruin of his whole scheme" is belied by Federalist #50 ("an extinction of parties . . . ought to be neither presumed nor desired"). Wills's conclusion that the *Federalist* says that "the genius of the people is virtuous" cannot be fairly deduced from the fact that the *Federalist* says the genius of the people requires republican government.

Wills's view has merit in stressing that the *Federalist* hoped to create a government which would indeed serve the public good and not simply conduct bargaining among interest groups. Interest is to be "distilled out" of the political process so as to "produce *dis*interested men at the top of the ruling structure." This formulation is more correct than the conventional "pluralist" view of the political scientists Wills criticizes, but is misleading in several respects.

First, a "disinterested" concern for the public good is not by itself sufficient. Federalist #10 discusses the danger posed, not only by the "common and durable" factions based on interest, but by the less common but more implacable factions united by passionate attachment to a fallible opinion. Madison thus both recalls the prevalence of political conflict based on religious opinions, and anticipates the rise of ideological movements passionately promoting their disinterested but fallible ideas about the public good. "Public interest" lobbyists of all persuasions may be disinterested, but they are not disembodied "angels"; self-love attaches men to their own opinions more than reason can justify. This problem leads the *Federalist* to describe the best rulers as those with "virtue" *and* "wisdom," a pairing of terms which Wills notes but does not consistently pay attention to.

Second, most of the *Federalist* discusses the political importance of human qualities more common than wisdom and virtue, and Wills distorts the book by assimilating those passages to his theme of virtue. For example, when Wills discusses "ambition" he weakens the force of that word. He immediately connects it to "pride" and to the "love of fame" which, Hume says, acts as a guardian of virtue. But Federalist #72 distinguishes the love of fame ("the ruling passion of the noblest minds") from the love of power (ambition) which rules some less noble minds. Ambition is, as Wills says, not at all "despised" by the *Federalist;* but it is also quite different from patriotic virtue. A simple example: According to Federalist #62, ambitious politicians like to replace incumbents and institute "new measures," even though the public has a strong interest in a stable system of laws. An ambitious man asserts *himself*. It would not satisfy him if someone else did everything he would do with no help

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from him. The *Federalist* treats ambition as potentially useful and potentially dangerous. The President is eligible for reelection so that ambition will offer an incentive to serve the public well; he is a single individual so that ambitious partners will not thwart each others' plans; he is impeachable so that his ambition can be controlled. As the *Federalist* admits, it may be a "reflection on human nature" that the *Federalist* discusses ambition and not only virtue.

Avoiding such reflections, Wills portrays a *Federalist* whose assumptions about republican virtue make it obsolete. (Some years ago, Richard Hofstadter argued the opposite thesis, that the book's "Hobbesian" assumptions about human nature made it obsolete!) Wills exaggerates when he says "we do not even pretend that we choose our politicians for their virtue." Is not that the intention of those who vote for the man rather than the party? Our situation seems rather to resemble the complexity described by the *Federalist,* in which public virtue is confusingly mingled with ambition, passionate attachment to fallible opinions, and self-interest. To accept such diverse human materials for the sake of freedom, and to deploy them for the sake of creating and preserving popular government, is a noble enterprise which has not yet failed.

In both of his books, Wills uses the influence of the Scottish Enlightenment to make inferences which are contradicted by the texts supposedly written under that influence. For example, he implies that the Humean morality of the *Federalist* somehow opposes a Lockean economics based on self-interest and property rights. Hume described commerce as an "exchange of good offices," which Wills misquotes as "kind offices," thus making merchants seem not only beneficial but benevolent. But a more careful comparison of Locke and Hume would be less relevant than an analysis of the words of the *Federalist* itself—such as those describing the "eager expectation" of "pleasing reward" which stimulates men's toil. In his eleven chapters on Federalist #10, Wills utterly ignores Madison's statement about the unequal human faculties of acquiring property which give rise to the "rights of property." Whatever contribution sociable impulses make to good government, the purpose of that government is most fundamentally the protection of the rights of *individual* human beings. This Lockean principle is as clear in the Declaration of Independence as in the *Federalist.* If some Scots otherwise influential with the American authors thought differently, this would only mean that Jefferson and Madison reached their Lockean conclusions with a knowledge of the alternatives.

In Interpreting the *Federalist* account of the structure of government, Wills makes several conspicuous errors. First, he elaborates at great length and from many sources the scheme in *Federalist* #10 of "refining" the public views through a system of indirect elections. But he misses the important fact that Federalist #10, unlike the essay by Hume it borrows from, does not propose indirect elections. Second, Wills misunderstands a slightly cryptic Madisonian remark defending the Constitution's provisions for treaties and appoint-

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ments as a proposal to amend the Constitution to give the President and Senate a joint veto power (a proposal which would be unintelligible, since the Senate already has an absolute "veto" on laws, and one-third of the Senate already has a "joint veto" with the President).

Wills delights in revising conventional wisdom, and the first half of the book does so on the question of Madison's relation to Hamilton. Not content with the simple task of refuting the view that the *Federalist* has a "split personality," Wills proceeds so far as to assert that Madison and Hamilton impersonated one another in the *Federalist*, or exchanged minds, or both suffered from a split personality so that the book has "five Publii" (Jay being left intact). Perhaps Wills pulls his reader's leg here, but the supporting "evidence" is offered in a very serious spirit of scholarly thoroughness. For example, Madison is said to show a "Hamiltonian" preference for the commercial interest in Federalist #62, wherein he favors stability so as to protect "investments." The dubious evidence of this preference is that Madison put "investments" first on his list, and agriculture second. But "investments" is a "translation" Wills supplies for Madison's "undertakings," a word which applies equally well to the efforts of farmers. Among Wills' other discoveries are that, compared to Madison, Hamilton praises England less, is more favorable to the right of revolution, and uses "stronger language" about state "sovereignty." The reader who consults, respectively, Federalists #8, 9, 46, and 39, may find these points unpersuasive.

As Federalist #10 reminds us, human passions attach themselves even to fallible opinions. Wills sometimes resembles the ambitious politicians who insist on their own "new measures." This is not unique to him among scholars, or to scholars among citizens. The proud human wish to have his own opinions prevail, and not merely the selfish wish to have individual interests served, is at the root of the popular "genius" which the *Federalist* thinks requires republican government. Many things have changed since 1787, but both of those wishes persist; in this respect, among others, the *Federalist* continues to explain America.

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